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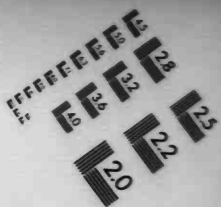
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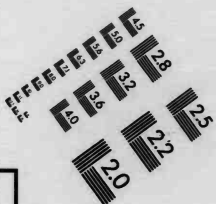


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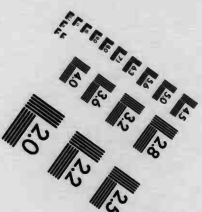
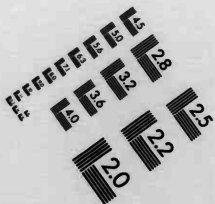
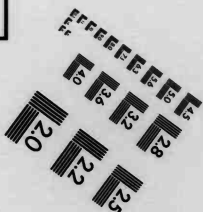
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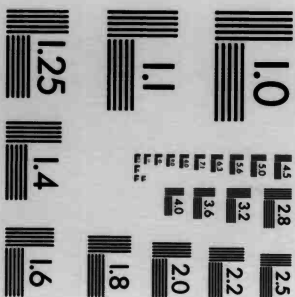
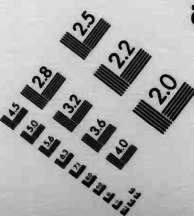
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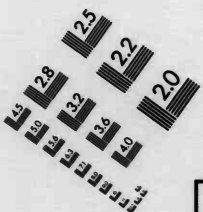
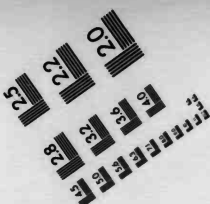
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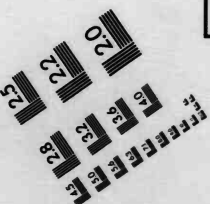
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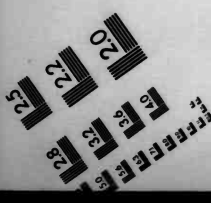
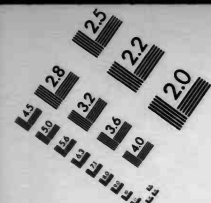
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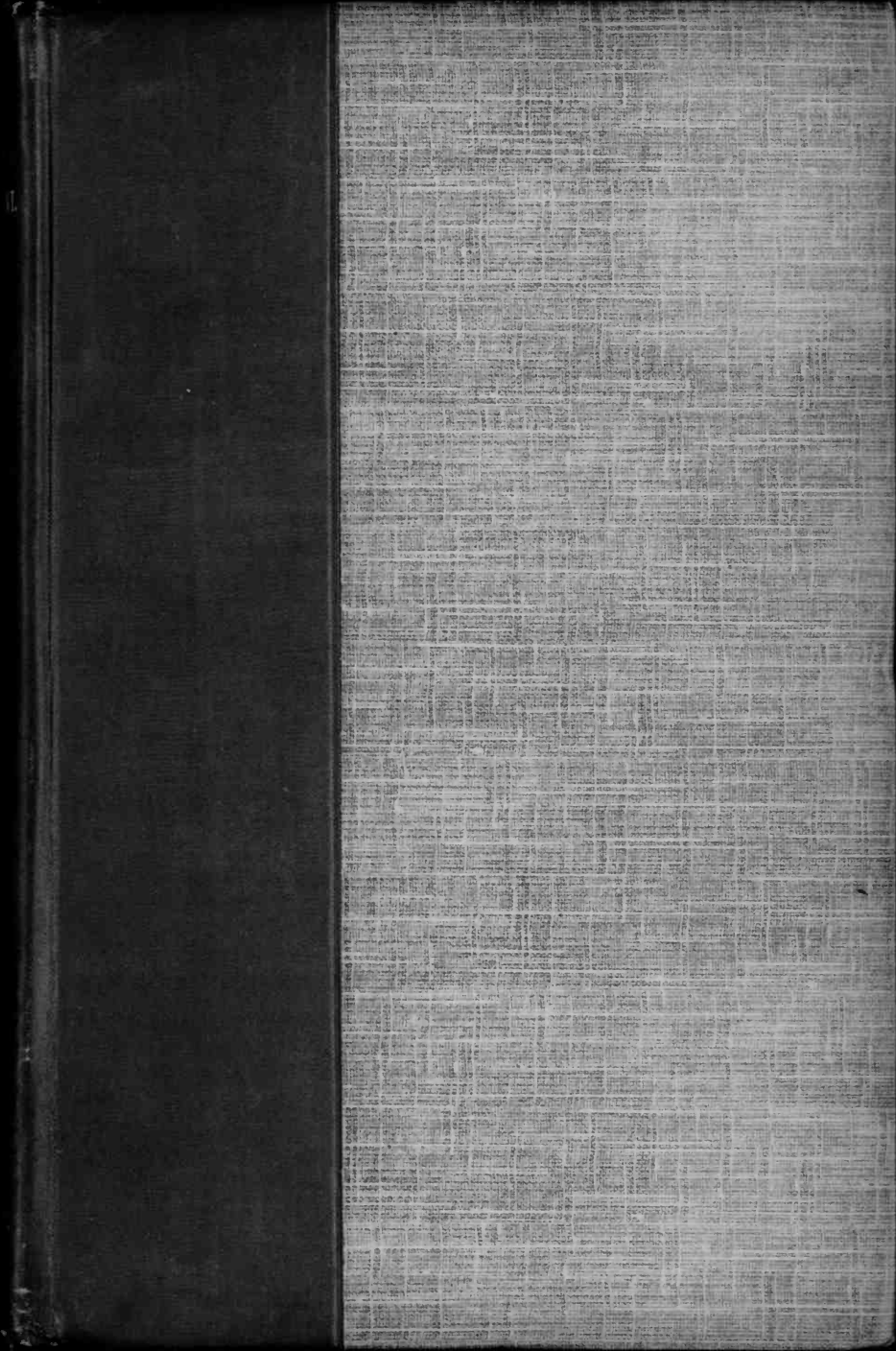
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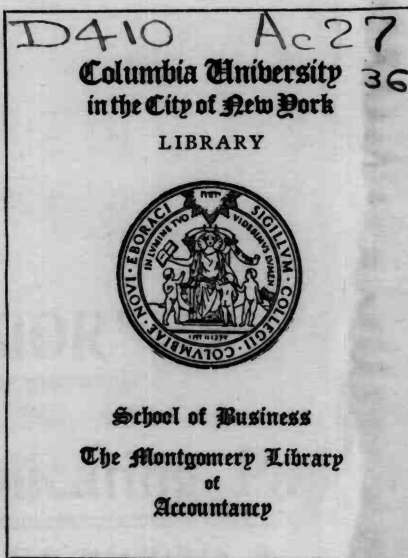
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34 Moorgate Street,
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June 1903.

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INTRODUCTION.

THE title of the present volume comprises one of the most important subjects in the whole series.

The business of Fire and Life Companies alone has now increased to such enormous proportions, and the totals of the amounts covered by the policies every year in force, if only approximately arrived at, prove to be of such unprecedented magnitude that the uninitiated might very well be excused doubts as to transactions involving such gigantic sums of money being within the range of business possibility.

But the area of operations is by no means confined to these branches. Accident Insurance—which is, by comparison with the venerable antiquity of the foregoing, a new departure—has during the last few years increased by leaps and bounds, and is rapidly taking a place in the front rank as regards importance and popularity, if not in respect of the volume of business transacted. This branch includes Workmen's Compensation, Employers' Liability, Common Law, and Third Party risks, and covers casualties caused by horses, vehicles, motor-cars and cycles, lifts, hoists, cranes, hoardings, plant, &c., and a host of other innovations too numerous to detail; while its various departments are, again, sub-divided as regards variation in benefits given, and other matters, until divisions and sub-divisions, groups and sub-groups, appear to be endless.

Nor is this all. For, beyond what has been mentioned, exist facilities for insuring in respect of Burglary, Sickness, Plate Glass, Fidelity Guarantee; Horses, Cattle, and Live-stock; Boilers, Gas and Steam Engines, and Electrical Machinery and Plant (against explosion and breakdown); Registered Post, and

other Transit Risks; Dispenser's Risks; Loss of Licenses; Forged Transfers, Mortgages, Issue and Re-Marriage Risks, Loss of Documents, Loss of Profits and Dividends, Failure to Fulfil Contracts, and a multiplicity of little thought of contingencies. While, thanks to the fertile genius of insurance managers, actuaries, and directors, new schemes are being matured almost daily, and placed before the public in bewildering and never-ending succession.

The business is pre-eminently one in which figures and calculations form a vital part, and, even irrespective of the actuarial requirements of a Life Office, it is obvious that a skilfully devised and scrupulously adjusted system of keeping the accounts and records is in the highest degree important. Indeed, so intricate are the transactions in their nature, and so capable of multiplying an error of judgment in rating to enormous proportions, that too close attention can hardly be devoted to this matter.

In approaching a subject of this nature two methods of procedure present themselves.

(1) To give an outline of one particular system, choosing, if possible, that which arrives in the shortest way at the end in view, and reduces the number of books to be employed, and the entries necessary therein, to a minimum.

(2) While preserving a general principle throughout, to give extended information wherever this course appears likely to lead to a better understanding of the matter in hand; discussing from time to time the various systems in vogue as regards the separate divisions of the work; pointing out their advantages and otherwise, and endeavouring to produce a treatise which, while confined to technicalities, shall be of more extended scope, and consequently of greater specific usefulness than would be possible under the method first described.

The second course has been adopted, and more particularly because it would appear impossible for a subject of so far-reaching a nature to receive anything approaching adequate treatment under any other.

Following the broad lines laid down above, it has been thought best to deal generally with the matter in the first place, giving by way of illustration an outline of the books necessary for a company undertaking two or three distinct branches of the business—for example, Burglary, Plate Glass, and Sickness (annual contracts); and then to treat of special considerations affecting the main divisions—*i.e.*, Fire, Life, and Accident. Special features relating to the important division of Marine Insurance are more properly dealt with under "Underwriters' Accounts," which have already received able treatment at other hands. (See Vol. XXII. of this series.)

A system suitable for a company transacting business of a miscellaneous character has been chosen as a basis, as it is generally admitted that the requirements of such an office present the greatest difficulties. Consequently the fullest opportunities are afforded of discussing underlying principles. The three branches of the business mentioned—*viz.*, Burglary, Plate Glass, and Sickness (annual contracts)—have been selected as giving rise to few incidental complications, and therefore leaving the general plan more clear.

Any consideration of the general principles of bookkeeping, and of those matters which are referred to at length in almost every treatise upon general accountancy, has been omitted; the object of this work being to treat only of the technicalities of account-keeping relating to the business of insurance, and which are sufficiently numerous to extend the present volume to more than the usual limits.

The book has been designed more especially to meet the requirements of three classes of readers:—

- (1) Auditors desirous of obtaining information upon the technicalities of the business.
- (2) Accountants who may be called upon to devise a set of books for a new company, or to suggest an extension of, or improvement in, an existing system.
- (3) Students of "insurance" generally.

And the last-named, in view of the fact that this subject has now been added to the curriculum of the London University in this country, and the Yale, Harvard, and other Universities in the United States of America, claim a by no means inconsiderable amount of attention.

No attempt has been made to deal with all the special features which arise in connection with the many divisions of a subject so complex, but the Author's endeavour has, the rather, been to give prominence to the principles governing accounting in its relation to the business, and the various systems discussed, in the belief that, when these principles are once grasped, the working out of the details necessary in particular cases will present few difficulties to the majority of readers, still less to those who are qualified accountants. It is impossible that many of the forms given should be otherwise than of a very general nature, but they are capable of being readily adapted to meet special requirements, and will, it is believed, be found in structure sufficiently elastic to cover, with but slight alteration or extension, most of the contingencies which are likely to arise.

On the other hand, it will frequently be found possible to considerably modify the general system in particular cases, and, when the precise requirements of a company are ascertainable, numerous possibilities of simplification will, no doubt, suggest

themselves. This will arise from the more restricted requirements of individual cases.

A word or two is, perhaps, necessary as to the terms "Assurance" and "Insurance" as applied to companies. The former is now generally regarded as denoting "Life" business, in which instance a *certainty* is covered; the latter as applying to all other descriptions of the business, in which cases a *contingency* only is provided against. Where the business as a whole is under review, the word "insurance" has been used herein as embracing the greater volume of transactions.

A certain amount of information regarding the general office routine and working of an insurance company, acquired by the writer during some years of close connection with the business, has been scattered throughout the work as likely to prove of use in imparting a fuller knowledge of the subject in hand, and in order to show an intelligent connection between the accounts, records, and general procedure of a company.

In view, however, of the wide range presented by the subject, and, at the same time, the well-defined limits to which these hand-books are expected to conform, the difficulty experienced by the Author, confronted by a mass of detail of ever-increasing proportions, has been not so much in regard to what to include as to decide upon how much to leave out. With what success he has performed his task readers must themselves judge. But the need for a book dealing exclusively with the subject of Insurance Companies' Accounts (and in a fuller manner than has hitherto been attempted under other conditions) cannot be questioned.

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January 1905.

INSURANCE COMPANIES' ACCOUNTS.

CHAPTER I.

GENERAL PRINCIPLES.

The Intent.—

At the outset it is necessary to have a clear conception of the governing thought running through the system of accounts invariably adopted by insurance companies.

This system differs widely as to detail wherever it is found, but the aim to be achieved remains the same, and the primary object with which the books of an insurance office are constructed is to enable the management to follow constantly and closely the progress or otherwise of the business; in other words, to afford facilities for feeling the throb of the pulse of the, often mighty, organisation to those who are responsible for its healthy development.

Other ends are, of course, kept in view. The Balance Sheet and accounts for presentation to the shareholders loom largely in the background, and, in the case of a life assurance company, the provisions of the Acts of Parliament relating to the business have to be carried out, and the requirements of the Actuarial Department to be borne constantly in mind; but these may be regarded as extensions only of the general system, and do not of themselves give the dominant thought upon which it has been

reared. Many of the results shown by the books are, of course, intended for the eye of the official only, and never penetrate to the shareholders—or proprietors, as they are sometimes called—still less to the general public; but the information derived therefrom is none the less valuable and necessary.

Differences in Detail.—

Having thus to a certain extent cleared the ground and established a foundation or general basis, the differences in detail in the superstructure will lose much of their apparent importance, will fall more readily into their proper places in the general plan, and will be more easily carried in the mind. These differences are legion. Every main division of insurance business necessitates an adaptation of the general system to its own peculiar features, and every separate office coming within these divisions would appear at first sight to have a system of its own; while matters are rendered still more complicated by companies carrying on half-a-dozen or more widely distinct branches of business at one and the same time.

Obviously, therefore, the production of a hand-book intended to be at once comprehensive and analytic upon such a subject is a task not unattended with difficulties.

Primary Divisions.—

The consideration of the matter before us will be rendered easier if we start by grasping the fact that the income and expenditure of an insurance company are each broadly divisible into two main sections.

As regards Income, these are—

- (1) Premiums.
- (2) Interest or Dividends on Investments, Rents, &c.

As regards Expenditure, or Outgo, they are—

- (1) Claims.
- (2) Working Expenses.

And practically the whole of the transactions will be found to fall under one or other of these headings.

Of the sections above referred to, the most important from the point of view of this work is that relating to "Premiums," the reasons for which will sufficiently appear as we proceed.

Departmental Divisions.—

Among insurance offices division into departments, of routine work, has reached the perfection of an art, and, while greatly assisting in the easy running of a large business, is a factor which enters largely into the formation of the system of accounts adopted in each office.

For our present purpose the departments, so far as they relate to premiums, may be broadly classified as follows:—

- (1) The Head Office (Direct Business) Department.
- (2) The Agency Department.
- (1a) The New Business Department.
- (2a) The Renewals Department.
- (3) The Cashier's Department.
- (4) The Accountancy Department.

There are often numerous other departments or sub-departments, but the above are all that need be mentioned at this stage.

Each department works with, or has a considerable bearing upon, other departments, and the whole interlock with a precision which other businesses might often well copy.

The first four divisions need not be more than mentioned in this chapter. With regard to the last two an excellent rule exists, which is that the official who receives and handles the cash shall have nothing to do with the posting of entries to any of the books, and shall be responsible for the writing up of the Cash Book only. The result is that misappropriation cannot be systematically carried on without collusion, and is rendered so much the more easy of detection.

The Agent.—

A most important factor in all insurance business, and one which exercises a determining influence upon the accounts, is the Agent. Transactions between an insurance company and the general public are carried on almost entirely through the "middleman." A reason is not far to seek. "Selection" and "moral hazard" are very largely of the essence of the business, and not a few offices look with more or less suspicion upon any case which comes to them direct, or, as it is termed, "over the counter," as in such instances the "moral risk" is often difficult to gauge. The appointment of the agent is safeguarded to a certain extent by references being required, and by the agent himself being called upon from time to time by one of the company's inspectors, and the former is expected to know, and usually does know, something of the character of the proposer whose business he submits; but a risk coming in from a stranger has little or no check upon it in this respect, and notoriously undesirable cases are frequently offered direct. The agent, therefore, must always be kept prominently in view when the books of an insurance company are being considered.

CHAPTER II.

OFFICE FORMS AND BOOKS OF RECORD.

The Proposal Form.—

THE foundation of the business of an insurance company is the Proposal Form. Offer and acceptance are the requisites of every binding agreement. The proposal form when duly filled in becomes the "offer," and thereafter constitutes the *basis* of the contract.

The Proposals Register.—

Frequently a book bearing this title is kept, and the proposal, on being received by the office, is entered therein. The particulars given are, briefly:—

Proposal Number;
Name of Proposer;
Agency;
Description of Risk;

and other details, more or less full, as may be required by the management. This book may be bound with an index in very small companies, or for small departments, but more usually a separate index is kept, termed "Index to Proposals Received," which enables an office at any time to turn up and check the details of any risk that has once been before it. A further index of "Proposals Declined" is also sometimes added, by means of which a company can detect undesirable cases without having to consult the larger book. And undesirable cases are sometimes offered two or three times over, with an interval between.

The proposal, having been entered, is placed before the management, with the agent's report (if any), and one or other of the following fates is accorded to it.

- (1) It is accepted at the ordinary rate.
- (2) It is accepted at an increased rate for special reasons.
- (3) It is declined.

The result is recorded in the "Remarks" column of the Proposals Register, and the agent, or, if no agent intervenes, the proposer direct, is notified thereof. Finally, when the policy is issued the policy number is added to the particulars given by this Register.

The use of this book, however, is not universal, and if an Index or Register of Proposals Declined or Abandoned, and a Name Index to policy-holders—of which more hereafter—be kept, it can be dispensed with.

The proposal papers relating to declined cases are filed by themselves, for future reference if need be, in order of proposal number, and those relating to cases "abandoned" before the policy has been prepared are similarly treated.

The Acceptance Letter.—

When a risk is accepted, either at the ordinary or an increased rate, the notification of that fact will generally take the form of a printed communication, with certain spaces filled up in ink; and this not infrequently serves as an authority to the agent to collect the premium, and the third purpose of stating specifically what the premium is to be, where there is any variation from the normal rate. This form is termed the "Acceptance Letter," and is issued pending the preparation and signing of the policy.

The Policy.—

We next come to that most important and little-read document, the Policy; often a triumph of skill on the part of the management and the company's legal adviser, but rarely, if ever, sufficiently wide to cover all the contingencies which arise in the conduct of the business, thus becoming the cause of *ex gratia* payments and disputed claims.

A copy of the special clauses of every policy issued must be retained by the company for future reference. This rule is rigorously observed, but there is some variety in the methods employed in carrying it out.

The following systems have come under the notice of the writer:—

- (1) To keep in stock duplicate Policy Forms of every series upon thin paper; to draft the policy thereon and submit it to the management for initialment, and to write out the policy from this draft, which is then filed in a specially endorsed printed envelope with the proposal and other papers relating to the case, each envelope bearing the number of the policy, and being kept in numerical order.
- (2) To have the Policy Forms printed in a book, with a counterfoil on which the necessary particulars are entered.
- (3) To draft each policy on a specially-ruled form, giving thereon all the clauses requiring to be *written* in the body of the policy, which forms are afterwards bound up in books in numerical order for future reference. This method is more or less general among fire insurance offices.

The Policy Register.—

It is, however, under the first two systems a most usual practice to keep in addition a somewhat elaborately ruled book,

called the Policy Register, in which a brief summary of all the necessary details is entered for convenience of reference. These entries are usually sufficient for most purposes of the business, thus rendering a reference to the Policy Draft only occasionally necessary. How full the particulars given in the Register are to be is a question for the management to decide, and the ruling, which is columnar, is determined by the nature of the business undertaken. The entries in this book are made strictly in accordance with the numerical order of the policy, and separate Registers are commonly kept for different divisions of the business. Thus a company transacting Burglary, Plate Glass, and Sickness insurance would probably have a separate Register for each of these departments, and a distinct series of Policy Numbers would be used for each. The division of the numerical series may be denoted by prefixing a letter to the number, thus, the prefix "B" signifying Burglary, "G" Plate Glass, and "S" Sickness; by allocating a certain set of numbers to each department thus, 1 to 25,000 to Burglary, 25,001 to 50,000 to Plate Glass, and 50,001 to 100,000 to Sickness, or by a combination of the two methods.

Name Index.—

An index arranged alphabetically according to the names of the policy-holders, and showing the number of the policy held by each, is also often kept, and is a most useful and important book, as, in the event of an inquiry being made respecting a policy without the number being given, it enables the staff readily to find the number and the relative entries, which otherwise it is extremely difficult to do.

The general remarks in this book, at least in the early part, may be taken as being more particularly applicable to small companies, and to those whose business transactions have not assumed extraordinary dimensions. The systems in force in very large offices tend increasingly to become special in nature

and peculiar to the distinctive features disclosed by the operations of each company. But it must be pointed out here that the ordinary alphabetical index has long since proved wholly ineffective on account of the difficulty of finding individual names when a very large number of entries are recorded; that what is known as the "vowel index"—*i.e.*, an index in which each letter has allotted to it five divisions, and the entries are governed by the first vowel appearing in the surname—is becoming less used than formerly; and that the "first three letter index" is now recommended for all large undertakings.

The Policies Signed Book.—

One other book must be mentioned in this chapter. The Policies Signed Book is a book in which the numbers of the policies placed before the directors for signature are entered in numerical order as a precaution against duplication of numbers. The directors signing the policies check the numbers on to this book, which they initial, and add the date.

If each division of the business has its own series of numbers, provision is easily made therefor by having the book ruled on the columnar principle. (See Form No. 1.)

Form 1.—

POLICIES SIGNED BOOK.

Policy No.			Name	Sum Insured	Date Signed, and Directors' Initials
Burglary	Plate Glass	Sickness			
B. 101	A. Brown	£1,500	1/1/04 A. W. B. G. L. S.
B. 102	..	..	W. Gray	200
	G. 29,911	..	C. Black	—	
	G. 29,912	..	F. White	—	
		S. 50,009	O. Green	£5 per week	
		S. 50,010	E. Pink	2 " "	

The Advice Letter.—

The policy having been duly drafted, written out, signed and entered, an Advice Letter, addressed to the agent, is made out to accompany it. A press copy of this document, the body of which is generally in print, is often kept in a Letter Book provided for the purpose, and this is of use where an agent disputes receiving a particular policy.

The form gives briefly:—Policy No., Name of Insured, Amount of Premium, Agent, &c.; and not infrequently a form of acknowledgment, perforated, to be signed by the agent (or by the insured, if no agent is employed) is appended.

The Advice Letter is sometimes converted into a form of account by the agent, and returned with cheque.

CHAPTER III.**THE PREMIUM REGISTERS.****Preliminary.—**

THE Premium Registers are by some offices regarded solely as books of record, by others as forming a part of the system of accounts. This being so, they can only be conveniently treated of in a chapter by themselves. They, however, constitute perhaps the most important set of books in an insurance office, and this more particularly as regards the Renewal Registers. The reason is at once apparent. By far the larger portion of the premium receipts of an insurance company, except during the first year or two of its career, is derived from renewal premiums, and the company's existence practically depends upon the correct keeping of the details relating to these.

First Divisions.—

Primarily, these books are divisible into—

- (1) The New Business Register, or Registers;
- (2) The Renewal Registers;

and they differ materially.

PART I.**THE NEW BUSINESS REGISTER.**

(Showing treatment of Premiums Payable Annually.)

THIS book (or series of books) contains a record of the premium receivable by the office in respect of every new policy issued. As is the case with most other insurance books, it is

known by a variety of titles, one of the most common alternative names being the "Policies Issued Book," which frequently combines the functions of the Policies Signed Book (referred to in the last chapter) with those of the Register now under discussion, and in such a case is initialled by the directors signing the policies. The bestowal of names, more or less at random, is, however, not conducive to the proper grouping of the books into distinct classes, and, in some cases, prevents a ready understanding of the place they occupy in the general system. It is, therefore, to be as far as possible avoided.

Departmental Divisions.—

Where a company carries on business in more than one department, it will frequently have a New Business Register for each—*e.g.*, one for Burglary, another for Plate Glass, and a third for Sickness. Under this method the policies will be entered therein as issued by the departmental clerks, and not by the accountant's staff. The effect of this will be more fully discussed in the next chapter.

First Sub-divisions.—

There are two principal forms of New Business Register:—

No. 1 is applicable to cases the renewal premiums in respect of which fall due upon the anniversary of the date of commencement of risk.

No. 2 deals with policies upon which the renewal premiums are made payable at twelve months from the quarter-day next following the date upon which the risk commences.

The question as to which form is to be adopted in a particular case is decided by the nature of the business undertaken, or by the general procedure of the office. For example, a Life Assurance Company will commonly favour System No. 1; a Fire Insurance Company will invariably follow—except in the instance of its foreign business—System No. 2; and an Accident Office either No. 1 or No. 2, as may be determined by the predilection of the management.

System No. 1.—

The essentials of the first form would be shortly as follows:—

SICKNESS DEPARTMENT.

NEW BUSINESS REGISTER.

FIRST PREMIUMS.

Form 2.—

(For cases falling due for renewal on the anniversary of the date of commencement of risk.)

1	2	3	4	5	6	7	8	9	10	11
Policy Number	Date of Commencement of Risk	Table under which Policy is issued	Branch or District Agency (if any)	Cr. folio in Over-riding Com-mission Ledger	Agent	Town	Name of Insured	Sum Insured	Premium Agents' Ledger folio Policy Register folio Renewal Register folio	Remarks
S. 50,009	1901 Jan. 1	11.	Bristol ..	30	W. Redman	Cleveland..	O. Green ..	£5 per week	212 117 17	
									£ s d 7 10 0	

The following points should be noticed with regard to this form:—

Col. 4. Branch or District Agency.—This is inserted for two reasons: (a) Because it is the practice in some offices to send the policies (and renewal receipts) relating to certain districts direct to the Branch or District Agency for distribution by them to the agents they supervise; (b) in order to facilitate the keeping of a proper account of the over-riding commission payable. (See Chapter V.)

Col. 10. Premium.—The column for Agents' Ledger Folio is used where the Premium Journal is dispensed with, which matter is more fully dealt with in the following chapter.

The column for Policy Register Folio is inserted to facilitate the checking of the entries with the Policy Register, both books being frequently written up independently of each other.

The column for Renewal Register Folio is dispensed with where it is the practice to obtain the entries for the Renewal Registers direct from the Policy Registers, in which case a similar column is added to the latter.

Col. 11. Remarks.—This is most useful in all insurance books, as incidental and seldom recurring matters can be explained therein, and the exigencies of the business frequently call for its use.

The form of ruling shown may often be extended with advantage. By way of illustration, take a company transacting business under two tables only. For instance, a plate-glass insurance company dividing its business into—

Table 1. Shop Risks,

“ 2. Private House Risks,

and wishing to keep a separate record of the premiums receivable under each. The desired result is at once obtained by dividing the space allocated to “Premium” into two Money columns, headed respectively Table I., Table II. (See Form 2a.)

Form 2a.—

PLATE GLASS DEPARTMENT.
NEW BUSINESS REGISTER.
(Showing Classification of Premiums.)

Policy Number	Date of Commencement of Risk	Branch or District Agency (if any)	Cr. folio in Over-riding Commission Ledger	Agent	Town	Name of Insured	Premium	Remarks
G. 29,911	1904 Jan. 1	—	—	B. Scarlett ..	Chilham ..	C. Black ..	Table I. (Business Premises) £ s d 1 5 0	Agents' Ledger folio 23
G. 29,912	2	Newcastle ..	40	C. Snow ..	Morpeth ..	F. White ..	Table II. (Private Houses) £ s d 0 10 0	Policy Register folio 93
								Renewal Register folio 16
								17
								94
								82

Similarly, if desired, the business may be separated into a larger number of divisions, such as—

Table I. Shop Risks—Ordinary Plate,

- „ II. „ „ —Bent Plate,
 „ III. „ „ —Ornamental Plate,
 „ IV. „ „ —Show Cases,
 „ V. Private House Risks,

and so on.

With reference to “short term” policies, &c., the remarks under the heading of System No. 2 will apply.

System No. 2.—

The form dealing with the second of the “first sub-divisions” previously referred to is built up on the same general plan as Form No. 2, but has this principal difference: The premium is analysed and the single Cash column under the first system becomes three columns under the second. (See Form No. 3.)

Form 3.—

BURGLARY

NEW BUSINESS

(For cases falling due for renewal at the expiration

1	2	3	4	5	6	7	8	9
Policy Number	Date of Policy	Renewal Date	Table	Branch or District Agency (if any)	Cr. folio in Over-riding Commission Ledger	Agent	Town	Name of Insured
B. 101	1904 Jan. 25	Mar. 25	II.	Birmingham..	14	W. Sharp ..	Walsall ..	A. Brown ..
B. 102	26	“	I.	..	..	J. Hasty ..	Rochester ..	W. Grey ..

With reference to this form, it should be noted:—

(1) The reason for separately showing the payment received in respect of “odd time”—although this plan is by no means always followed—is one of statistical importance, and where the premiums in respect of new business are so divided, and an average rate of cancellations is assumed, it is an easy matter to estimate the *renewal value* of all new business. Where the first premium is not so divided, the figures shown by the books may become to a certain extent misleading, as they give in respect of new business a total which could not possibly be realised upon renewal, even although every case should be continued in force upon the renewal premium becoming due.

(2) The column in respect of short term policies is inserted for the same reason as that given above, these policies being for periods of less than a year, and not renewable.

DEPARTMENT.

REGISTER.

of twelve months from the next Quarter-day.)

10	11. Short Term Policies				12 Renewable Policies.					13
Sum Insured	Premium	Agents' Ledger folio	Policy Register folio	First Premium	Agents' Ledger folio	Policy Register folio	Odd time to Quarter day	Future Annual Premium	Renewal Register folio	Remarks
£ 1,500	£ s d .. ..	..	..	£ s d 8 15 0	363	118	£ s d 1 5 0	£ s d 7 10 0	17	
200	0 5 0	27	19							Policy Expires 26 September 1904

(3) If "single premiums," which term is generally used to denote payments made in one sum to cover a policy of two or more years' duration—often five or seven—are received, another column should be added to record the entries relating to these, as, in addition to the reasons which have been already given, such policies have a direct effect upon the amount it is necessary to reserve at the end of each financial year in respect of unexpired risks. This matter is more fully dealt with in Chapter VIII., which treats of the general question of reserves.

(4) In the case of renewable policies, the "first premium" is posted to the Agent's Account, and the "future annual premium" only is shown in the Renewal Register.

PART II.

THE NEW BUSINESS REGISTERS (*continued*).

(Showing treatment of Premiums Payable Half-yearly and Quarterly.)

THE practice of receiving premiums by half-yearly and quarterly payments no doubt results in a certain number of additional proposals being secured, but such premiums have a distinctly disturbing influence upon the accounts, and special care becomes necessary to ensure their being properly dealt with. It is, indeed, usual for a company to charge a small percentage by way of extra premium to cover the cost of collection in these cases—sometimes as much as 5 per cent. on half-yearly, and 10 per cent. on quarterly, cases is charged—but, taking into consideration the large increase in office work their proper treatment entails, it is to be doubted, the additional premium notwithstanding, whether they result in very much benefit to

the company. The fact of their existence cannot, however, be ignored, and it consequently becomes necessary that the manner of their treatment in the accounts should be adequately discussed.

The chief points of difficulty in dealing with these premiums arise in connection with the second half-yearly instalment, and the second, third, and fourth quarterly instalments, of the first year's premium; and the causes are as follows:—

(1) It is a very common practice for offices to pay a higher rate of commission on new business than is paid upon renewals, and to consider all payments forming part of the first year's premium as new business. The later instalments must, therefore, be "ear-marked" until they reach the Agent's Account.

(2) It is customary, and always desirable, to preserve a separate record of the total amount received in respect of all new business in each year, and the later instalments are rightly to be reckoned as new business.

It follows, therefore, that special arrangements must be made for recording as new business the instalments mentioned.

Another point, which is not without its effect upon this matter, is as follows:—

The annual premium constitutes the normal return to the office for the benefits given, and, in the event of a company agreeing (as it would term it), for the benefit of the insured, to accept payment by half-yearly and quarterly instalments, it usually reserves—by endorsement on the policy—the right to deduct from the first claim arising during the currency of any one year, reckoning from the date of commencement of risk, or the anniversary thereof, the balance of the full year's premium remaining unpaid. In other words, it is not content

Form 5.—
INTERIM RENEWAL REGISTER.
(FOR QUARTERLY CASES, SHOWING EXTENSION OF PREMIUM COLUMN.)

[illegible]

The method shown by Forms Nos. 4 and 5 is undoubtedly the better for the reasons given below :—

- (1) It necessitates only one entry of the particulars of the risk.
- (2) It is capable of showing at a glance whether the payment to be received is the second, third, or fourth.
- (3) It obviates the necessity (which arises under System No. 1) of having three—and in the case of renewals after the first year, of which more hereafter—four folioing columns in the New Business Register or Journal and the Cancellation Journal.
- (4) In the event of a policy lapsing, there is no danger of a quarter being overlooked when ruling out, but there is a very considerable danger of this under the other system.

Half-yearly and quarterly cases are in actual practice, by comparison with those in which the premiums are paid annually, not numerous, and, fortunately, the question of "odd time" does not often arise, it being usual for the payments on such policies to fall due at three or six months, as the case may be, from the date of commencement of risk. A small set of books will, therefore, frequently be all that is required.

The form of the New Business Register will require some slight modification where these cases exist, and a specimen ruling is given in Form No. 6.

The subject of half-yearly and quarterly premiums is further discussed, as regards the division of the Registers into months, &c., under "Renewal Registers."

The following points are to be noted with reference to Form No. 6 :—

Col. 1. Date of Issue of Policy, or Entry.—This is necessary if the entries in the Agents' Ledgers are posted direct from the

New Business Register, and this remark will apply equally to the rulings previously given, although the inclusion of such a column tends to spoil the appearance of the form as a "register."

Col. 2. Policy Number.—It is advisable to prefix the initial letter "H.," signifying "half-yearly," to the policy number in half-yearly cases; and "Q.," signifying "quarterly," in quarterly

Form 6.—

SICKNESS (OR

NEW BUSINESS

SHOWING TREATMENT OF HALF-

1	2	3	4	5	6	7	8	9	10
Date of Issue of Policy, or of Entry	Policy No.	Date of Commencement of risk	Table under which Policy is issued	Branch or District Agency (if any)	Cr. Folio in Over-riding Commission Ledger	Agent	Town	Name of Insured	Sum Insured
1904		1904							
Jan. 4	S. 50,010	Jan. 2	I.	..	..	O. Beer	Kingston	J. Drinkwater	£1 Per Week
"	S. 50,011	"	I.	..	..	A. Stone	Richmond	C. Wood ..	£2 Per Week
"	S. 50,012	"	II.	..	..	F. Cole	Maldon ..	G. Light ..	£2 Per Week
"	Q.								

cases; and such a course will prove of great benefit when cancellments are being dealt with.

Col. 11. Premium (Sub-columns *g*, *h*, and *i*).—This set of columns may be used in respect of folios both for half-yearly and quarterly cases. It will be noticed that column *e* differs from column *i* in that the latter refers to Interim Renewal Registers.

PART III.

THE RENEWAL REGISTERS.

WE now come to one of the most important sets of books with which we have to deal in the whole of this work—the Renewal Registers. Many considerations have here to be given

OTHER) DEPARTMENT.

REGISTER

YEARLY AND QUARTERLY CASES.

11 PREMIUM										12
<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>	<i>e</i>	<i>f</i>	<i>g</i>	<i>h</i>	<i>i</i>	<i>j</i>	Remarks
How Payable	Annually (where so Payable)	Agents' Ledger Folio	Policy Register Folio	Renewal Register Folio	Half-Yearly (where so Payable)	Agents' Ledger Folio	Policy Register Folio	Interim Register Folio	Quarterly (where so Payable)	
	£ s d				£ s d				£ s d	
A.	1 15 0	119	120	19						
H.	..	..	..	..	1 17 0	154	120	114		
Q.	..	..	..	..	..	53	112	81	0 19 0	

due weight, and provision has to be made for a variety of contingencies.

First Sub-divisions.—

To commence with, and as in the case of new business, renewals must be classified under two heads:—

- (1) Those falling due on the anniversary of the date upon which the risk commenced;

(2) Those falling due on the usual (English) quarter days.

In the case of fire insurance companies, and possibly some others, another complication has to be met in the shape of premiums coming round for renewal at the Scotch quarter-days, viz. :—

Candlemas, February 2.

Whitsun, May 15.

Lammas, August 1.

Martinmas, November 11.

For renewals mentioned under Class 1 above, books divided into months are kept. There may either be twelve separate books, each bearing the name of a month on the outside, or, in small companies, or for small departments, three books divided into months by a leather tab, or otherwise, in which case they should be arranged as follows :—

No. 1 should contain entries for the months of January, April, July, and October ;

No. 2. Those for the months of February, May, August, and November ;

No. 3. Those for March, June, September, and December.

The object in so dividing them is that entries can be made for the month following without interfering with the current work. A further reason is that under the system by which half-yearly and quarterly premiums are entered twice or four times, as the case may be (referred to in Part II. of this chapter), the relative entries, recurring respectively at intervals of six or three months, will all be found in one book, and this will result in a considerable saving of time in entering, and prove a great convenience when checking the entries.

As regards cases falling due at the quarter-days, a separate volume for each quarter is usual, although, where business

of this description is small, two books might suffice, containing :—

No. 1. Lady-day and Michaelmas ;

No. 2. Christmas and Midsummer ;

with a similar set of registers relating to the Scotch quarters where necessary.

As to *how full* the particulars given in the Renewal Registers are to be, the management must decide ; all the accountant has to consider is that the amount of detail shall be sufficient to enable the books of account to be properly written up therefrom or checked therewith.

Different Methods of Keeping the Registers.--

There are two systems, differing in principle, upon which Renewal Registers are kept. They are as follows :—

No. 1 is that by which the entries are made to follow each other throughout the Register, simply in accordance with the numerical order of the policy, and is sometimes adopted by "ordinary" life assurance companies, in which offices very small premiums are not usual. (This form of Register is—where the system of posting each renewal singly to the account of the agent is followed—sometimes made to do duty as a posting medium. Such a practice, however, involves a large amount of detail work, much of which may be rendered unnecessary. The matter is discussed at length in the following chapter.)

No. 2 is that by which entries are made according to the Branch or Agent, and is common with fire insurance and many other companies.

In the latter case a page, or a certain number of pages, as may be necessary, is, or are, allocated to each Branch or Agent, and an index is, of course, required. But under either system,

column every policy issued, whether "short term" or otherwise, and from time to time to agree the total amount of business in force, as shown therein, with the amount shown by the Policy Registers—a system in favour of which much might be said.

General Matters.—

Renewal Registers, as will be seen from the specimen forms given, contain columns sufficient for several years' extensions of the original premium entries. In life offices five years are generally provided for, as the actuarial valuation, as a rule, takes place at intervals of that duration. In fire insurance offices provision is often made for seven years, or even longer where practicable, as the copying out of the entries for a new series of Registers is a formidable task, and one which an office is desirous of undertaking as seldom as possible.

Where a premium in respect of a renewal is not paid, the words "Not renewed" are placed in the Remarks column. The date, month, or quarter of expiry of the risk is added, and the whole of the unused portion of the spaces under the heading of "Premium" are ruled out, usually in red ink, in order to prevent the possibility of the premium being inadvertently entered in a succeeding year.

Numerical Index.—

Where the system of opening the Renewal Registers according to the name of the agent is in force (and which is in most cases to be recommended), the Registers should be supplemented by a "Numerical Index of Policies Issued," to enable any policy respecting which an inquiry may be made—the number only being given—to be readily traced.

PART IV.

INCIDENTAL MATTERS.

BEFORE passing on to the next chapter it is necessary that one or two matters closely connected with the Premium Registers should be briefly dealt with.

Renewal Receipts.—

The first step towards the collection by a company of its renewals is the issue to the agent of separate receipts for each premium, made out in the name of the insured, signed by the manager or other chief official before leaving the Head Office, and countersigned by the agent when he receives payment.

The renewal receipts are written up (in books with counter-foils) from the Renewal Registers, and hence it is necessary that the Registers should contain particulars sufficient to enable this to be done without reference to other books or documents.

They are forwarded to the agent for collection of the premiums, accompanied by a "Renewal List," and are debited to him as despatched. The agent must, on a certain fixed date, return the Renewal List, with a note thereon of all the premiums which have been paid, together with the receipts in respect of all premiums that have not been paid for cancellation. These returned receipts are treated as vouchers, and the Agent's Account is credited therewith; but he is held personally responsible for the premium in respect of any receipt not returned.

After the first entry in the Renewal Registers the sum charged out is filled in, in the division of the Premium column which applies thereto, at the time of making out the renewal receipts.

and which order should be preserved, to the extent that circumstances admit, in the ruling of the Renewal Lists. This may seem a small matter, but it is one which will decrease the likelihood of errors, and, further, will greatly facilitate checking. It is, moreover, one of those little things which help to show the difference between a well-managed department and one less ably conducted.

Agents are either attached to a Branch or District Agency; or "unattached," in which case they are controlled by the Head Office. In the former instances the receipts are often sent in bulk to the Branches or District Agencies for distribution amongst their agents, as this keeps the centre of local control more directly in touch with the business of the district. This arrangement has also its bearing upon the subject of "over-riding commission," referred to later on, as it helps the Branch, &c., to preserve a record of all business within its sphere of influence.

Having thus dealt with the rudiments of our subject in a fuller manner than, it is believed, has been hitherto attempted, we pass on to another chapter, where we shall treat of account books proper, the consideration of which will be rendered less difficult from having traced the steps by which they are reached from the foundation—that is, from the Proposal Form.

In the following chapters an endeavour will be made to show more clearly the way in which the account books interlock with the business as a whole, consolidating its various departments, and presenting, as they do when properly opened and kept, a clear and analytic record of the progress of the undertaking, which is the object with which we started.

CHAPTER IV

THE PREMIUM JOURNALS.

Introductory.—

IN using here the title Journal, the writer is aware that he is employing a term which has become somewhat unfashionable, and that attempts have been frequently made to find other names for this useful book when it is met with in any but its original form. He, however, sees no sufficient reason for calling a series of books, forming part of a system of double-entry, employed to collect details for the purposes of posting to the Ledgers, and which do not partake of the nature of the Cash Book, nor possess the permanency usually looked for in the Register, by other than what seems to him to be their proper title. He is not here concerned to defend the merits of the Journal, as such, nor to inquire how far its importance was at one time exaggerated, and to what extent the present prejudice against it is the natural corollary; but his object is rather to deal with such of the books found in use in insurance offices as have a claim to general utility; to point out their more important functions; to indicate how far, if at all, they can be conveniently dispensed with; and to choose from the various terms employed those which most accurately describe the nature of the books.

The Premium Journals then, as has been indicated above, are employed to collect the entries relating to the premiums to be charged out for the purpose of facilitating the posting of

them to the debit of the Agents' and other accounts in the Trading Ledgers, and the transfer of the periodical totals to the credit of the Premium Accounts in the General (or Chief) Ledger, thus completing the necessary double entry.

First Divisions.—

In the case of the Premium Registers, the divisions, as detailed in the previous chapter, resolve themselves into—

- (1) First Premiums;
- (2) First Year's Renewals;
- (3) Renewals (after first year);

an arrangement which it will be well to retain in this chapter.

Differing Systems.—

The use of the Premium Journals is very general, but it does not appear to be entirely universal; and as we proceed an endeavour will be made to show clearly—

(a) In what cases, and in what circumstances, they can be conveniently dispensed with; or, in other words, when a choice exists, as regards first premiums, between the use of the New Business Register and the Premium Journal, the employment of both books being often unnecessary.

(b) Under what conditions the employment of the Journals results in a distinct advantage.

(c) When they become indispensable.

PART I.

NEW BUSINESS.—FIRST PREMIUMS.

A Governing Principle.—

At the outset the most important point to be borne in mind is that the treatment of first premiums is frequently different from that accorded to renewals, in which latter term first year's renewals are here intended to be included. That is to say, it is the common practice to post first premiums to the Agents' Accounts *in detail*; but where it can be conveniently so arranged, renewals are, and should be, posted in bulk—*i.e.*, in monthly or quarterly totals. Such a course, provided it is carried out upon a well-conceived system, will tend greatly to reduce the labour of keeping the accounts and need not unduly interfere with the work of tracing the payment of individual premiums—a matter sometimes of considerable importance, and to which reference is made later on.

Choice of Books, &c.—

So many books are absolutely necessary for recording the transactions of an insurance company that any expedient which tends to reduce the number employed, without invalidating the efficiency of any part of the system, is to be welcomed. Under what conditions, then, can the Premium Journal, or, as an alternative, the New Business Register, be dispensed with?

Let it be supposed that an office transacts business of one description only, and that it does not accept half-yearly and

quarterly premiums. Then, if a New Business Register on the lines discussed in the previous chapter is kept, a New Premium Journal becomes unnecessary, and *vice versa*. For it is obvious that the items may be posted direct from the Register to the Agents' Accounts, and that the required totals for the General Ledger may be obtained by making a monthly or quarterly addition therein, and posting from thence to the General Ledger direct, or through the medium of the "General" Journal. At the risk of repetition, it may be advisable to point out again that in the New Business Register the entries follow one another simply in the order of policy number, and that the system of reserving specific pages for each agent is applicable only to the Renewal Registers—first year's and otherwise. As a consequence the arriving at the total, or totals, for the General Ledger is, as regards first premiums, a matter which presents no difficulty.

In a case such as has been outlined, it is clearly unnecessary to employ both books, unless, indeed, it is desired to emphasise the division between the New Business Department and the Accountant's Department, and to check the work of one against that of the other. Here either book may be employed; and the question as to which shall be used is, in this case, one of little importance; but it may be mentioned that, if the Register be omitted and the Journal employed, the latter, being purely a book of account, will contain fewer details than would usually be given in the former; and, in particular, the Renewal Registers will be written up from the Policy Registers (the most common mode of procedure), and the relative folioing column transferred thereto. If both New Business Register and Journal are used, the latter will contain even fewer details, recording, in fact, only such particulars as are absolutely necessary to enable the accounts to be properly written up.

Columnar Journal.—

Where a company transacts business in several departments the Premium Journal, which is columnar, or tabular in form, shows the following distinct advantages:—

- (1) It enables an accurate classification of all premiums receivable to be easily made and retained in readily accessible and permanent form.
- (2) It facilitates the collection of the monthly or other totals for transfer to the General Ledger Accounts.
- (3) It enables the Agents' Accounts to be conveniently posted up, and presents no difficulty as to preserving the order of date of the entries therein—a difficulty which must otherwise present itself if a separate New Business Journal is employed for each department.

An outline of the Premium Journal as applicable, in the absence of New Business Registers, to the three departments we have hitherto discussed is given in Forms Nos. 9 and 10.

Notes on Forms 9 and 10.—

If "short term" policies are few the Premium columns in respect thereof are sometimes omitted.

If "single premiums"—*i.e.*, premiums covering two or more years in one payment—are received, columns to contain these should be added for reasons already given.

Form 9.—

NEW PREMIUM JOURNAL (FIRST PREMIUMS).

For Short Term Premiums and cases falling due for renewal on anniversary, &c., of date of commencement of risk, and including Half-Yearly and Quarterly cases.

Date of Entry	Policy Number	Branch or District Agency (if any)	Gr. Folio in Over-riding Commission Ledger	Agent	Town	Name of Insured	How Payable	Premium				Agents' Ledger Folio	Policy Register Folio	Remarks
								Burglary	Plate Glass	Sickness				
								Short Term Policies	Short Term Policies	Short Term Policies	Renewable Policies	Short Term Policies	Renewable Policies	
1904 Jan. 1	S. 50,000	Bristol ..	30	W. Redman	Clevedon	O. Green	A.	£ s d ..	£ s d ..	£ s d ..	£ s d ..	£ s d ..	£ s d ..	212 117

Form 10.—

NEW PREMIUM JOURNAL (FIRST PREMIUMS).

Showing Extension of Premium columns required in respect of cases falling due for renewal at twelve months, &c., from the Quarter-day next following the date of commencement of risk.

Premium										Policy Register Folio	Remarks
Burglary					Plate Glass	Sickness	Agents' Ledger Folio				
Short Term Policies		Renewable Policies									
		Agents' Ledger Folio	Odd time to Quarter-day	Future Annual Premium	First Premium						
£ s d		£ s d	£ s d	£ s d	£ s d						

Form 10. "Renewable Policies."—

It is only necessary to post the figures given in the "First Premium" column to the Agents' Ledger.

The use of a Premium Journal in either of the above forms obviates the *necessity* for the employment of a New Business Register.

Some offices, while dispensing with the New Business Register properly so called, have a separate Journal for each department, a method which has none of the advantages shown above, and would seem to have little if anything to recommend it.

When the Columnar Journal is adopted it is frequently the rule for the Accountant's Department to make the entries therein from the policies, when ready for despatch; and, of course, the policy numbers are carefully watched, in order to see that no duplicates are put forward and that no document is omitted, both matters of considerable importance.

PART II.

NEW BUSINESS.—FIRST YEAR'S RENEWALS.

Definition.—

THE term "first year's renewals" is employed to denote renewals falling due during the first *policy-year* in cases where premiums are payable either half-yearly or quarterly.

A First Consideration.—

Matters will be rendered more clear if we at once grasp the fact that, although in the case of first premiums a choice generally exists between the Register and the Journal, in the case of first year's and other renewals the Register is always

necessary, that it cannot be dispensed with, and that the use of the Journal (where it is employed) must always be in addition thereto.

First year's renewals accordingly occupy a somewhat anomalous position; for while the total premiums given therein have to reach the General Ledger as new business, and the debits in respect thereof have to be carried to the Agents' Accounts also in this form, the treatment of the entries in other respects follows that accorded to the ordinary renewals. This being so, it becomes necessary to discuss only a few special points in this division of the chapter, and the general procedure with regard to renewals of both classes will be more fully dealt with under Part III.

Where half-yearly and quarterly premiums are accepted, the use of the Premium Journal is invariably advisable. (But see note at foot hereof.^a) Where business of one description only is transacted, or where the departments are few in number and the first year's renewals also few, a New Business *Journal* may be ruled to contain both first premiums and first year's renewals, or the Renewal Premium Journal may be ruled to contain all renewal premiums, first year's and otherwise—the latter course, however, being more liable to lead to complications than the former; and in either case the necessity for a separate set of books to hold first year's renewals is obviated. A *pro forma* ruling is given in Form No. 11.

Note on Form 11. "First Year's Renewals."—

The column headed "Total" is of use only where a uniform rate of commission is paid irrespective of the department, otherwise the sub-total shown in each column must be posted, as will be explained later.

NOTE a.—If policies in only one department are issued, and the entries are few, the system of posting in detail, direct from the Register, may be followed with advantage—and the number of books reduced. In such a case the posting of entries as regards first premiums should be made from a Register in order that the system may be consistent throughout.

NEW BUSINESS JOURNAL
(To Include First Year's Renewals).

Form 11.—

Date of Entry	Policy Number	Branch or District Agency (if any)	Agent	Town	Name of Insured	How Payable	First Premium				First Year's Renewals				Remarks		
							Burglary	Plate Glass	Sickness	Agents' Ledger Folio	Policy Register Folio	Interim or Renewal Register Folio	Bur-glary	Plate Class		Sick-ness	Total	Agents' Ledger Folio
1904 Jan. 20	S50,020	Plymouth	B. Seed	Torquay	C. Flower	A.	£ s d	£ s d	£ s d 2 5 0				£ s d	£ s d	£ s d	£ s d	
Jan. 21	..	..	..	..	..	..	..	..	..	..	..	..	2 10 0	1 15 6	2 0 0	6 5 6	

Multiplication of books is to be avoided where practicable, as has been previously pointed out; but if the company transacts business in a large number of departments, a separate Journal for first year's renewals (notwithstanding that the entries in respect of these may be few) may become necessary, otherwise a most unwieldy volume will be the result. A separate Journal will, however, not very often be required, for, although an office may carry on business of several kinds, it by no means follows that premiums other than those payable annually will be accepted in every department; and, as a matter of fact, such premiums will usually be confined to two or three at the most of the departments.

The form of this separate Premium Journal, where it is necessary, will be found under "Renewals." (See Form No. 12.)

If the entries are contained in the New Business Journal those in respect of each month or quarter will, of course, all come together, and thus the continuity of the record of first premiums will not be unduly broken.

PART III.

RENEWAL PREMIUM JOURNAL.

Importance.—

AGAIN, as in the case of Premium Registers, the subject of Renewal Premiums assumes considerable importance.

Treatment in Detail.—

Renewal Registers are universally employed, and there is only one practical alternative to the use of the Renewal Premium Journal—viz., the method of keeping the Registers simply in accordance with the policy number and carrying the

entries direct from these to the Agents' Accounts, a practice which necessitates the posting of each premium separately in the Agency Ledgers, and, presumably, transferring them, also in detail, to the agents' monthly or quarterly statements of account. In "Ordinary" Life Offices, where very small premiums are little known, such a course, although laborious, is possible; in other offices where small items are very numerous, or where a company is carrying on a mixed business, it would frequently prove an impossible one. (See note.^b)

The advantages claimed for the system of posting in detail are:—

(1) That it obviates the necessity for an additional set of books—*i.e.*, the Premium Journals.

(2) That it affords some assistance in the event of its becoming necessary to ascertain whether payment to the office of any specific premium has been made—often a matter of importance in the event of a claim arising; but the information so obtained is sometimes of little actual service, for the reason that all duly accredited agents are allowed to retain premiums in hand for a certain length of time before paying them over, and, of course, payment by the insured to the agent is sufficient to bind the company.

Its great disadvantage is the large increase of labour it entails, much of which may be rendered unnecessary.

In Bulk.—

It has already been pointed out that the easiest way to keep Renewal Registers is to allocate a page, or a certain number of pages, to each agent, and, clearly, when this is done and where one class of business only is transacted, the renewals might be

NOTE b.—An exception, in part, to these remarks may be taken (in certain cases) with regard to the Head Office (Direct Business) Account, and this will be dealt with later on.

posted in totals to the Agents' Accounts; but the collection of the totals for the General Ledger presents some difficulty under such a system, and the employment for this purpose (or for any other purpose when it can be avoided) of loose sheets cannot be recommended on account of their liability to be misplaced, and the want of permanency they exhibit.

Advantages of the Journal.—

To obviate the palpable inconveniences shown above, and, more particularly to meet the unvarying requirements of companies undertaking business of several distinct descriptions, the Renewal Premium Journal is introduced, and this constitutes in all cases, perhaps, the only practical medium for the collection and proper classification of the premium entries for transfer to the respective Agency and General Ledgers. A specimen ruling is given in Form No. 12. In fact, so elastic is this book in structure—so capable of almost indefinite extension, and so admirably adapted to reducing the classification of premiums (one of the peculiar necessities of the business, and a matter of vital importance to some companies) to the precision of a fine art—that it has proved in practice of the greatest use, and its value under many conditions can scarcely be over-rated.

Instances have arisen of offices undertaking as many as ten or twelve different descriptions of business, paying a higher rate of commission upon new business (including first year's renewals) than upon ordinary renewals, with a rate in many cases varying, as regards both new and renewal premiums, according to the description of the business; and in these cases the practical indispensability of the Premium Journal is at once apparent.

Writing up.—

The Renewal Premium Journal is written up from the Renewal Lists accompanying the receipts, and should be called

Form 12.—
RENEWAL PREMIUM JOURNAL.

Date of Entry	Policy Number	Branch or District Agency (if any)	Cr. Folio in Over-riding Commission Ledger	Agent	Town	Name of Insured	How Payable	Premium				Agents' Ledger Folio	Remarks
								Burglary	£	s	d		
								Plate Glass	£	s	d		
								Sickness	£	s	d		
								Total	£	s	d		

over with the Renewal Registers. By this plan, if the receipts are written out from the Registers, and the lists from the receipts, as previously mentioned, a complete check upon each portion of the work is obtained. It is not unusual to enter the renewal premiums in detail in the Journal—a course which need not of necessity be followed where the Renewal Registers are opened according to the name of the agent; and, where the Registers are kept under the other system already described, it is suggested that the necessity for this may, if desired, be obviated by the simple process of retaining a press-copy of the lists. The matter, however, is one of internal arrangement, in which extended detail is to be preferred to too little.

Marking up Payments.—

Many companies add to the Renewal Registers columns for marking up the date of payment of the premium to the office, but it is to be feared that the intention is often not carried out, probably on account of the large amount of time involved. Nor, although such a course if persevered in results in great benefit, does it appear that it is absolutely indispensable to the accurate keeping of the accounts and records. (See note.) Another method of arriving at the end in view—viz., the being able to ascertain at any time whether a particular premium has been paid—is to insist upon the Renewal Lists being returned upon certain fixed dates, showing thereon the date of payment of each premium, and denoting any policies which have lapsed, and to keep these lists carefully filed for reference in case of need.

NOTE c.—Most frequently a column headed "Date paid" is added for this purpose to the Registers or Journals, but some offices are content merely to place a tick in red ink against the items as they are received.

PART IV.

THE CANCELMENT* JOURNALS.

FOR the purposes of debiting, a Premium Journal is, as we have seen, not always used; but a Cancelment Journal is invariably to be found in insurance offices. It is, however, known by several other names, such as—

Premiums Extinguished Book.
Register of Policies Written Off.
Cancelment Register, &c.

In form it is a reproduction of the Premium Journals, but it is used in an opposite way—that is to say, the details of this book are posted to the credit of the agent, and the grand totals to the debit of the Premium Accounts in the General Ledger, the procedure as regards the Premium Journals being, of course, *vice versa*.

Divisions.—

As with the debiting Journals, the Cancelment Journal is divisible into two sections:—

- (1) That relating to new business (including here also first year's renewals).
- (2) That relating to "renewals."

New Business.—

With regard to the first division it should, perhaps, be pointed out that in Life business it is very usual not to make out the policy until the first premium thereon has been received (possibly owing to the higher rate of stamp duty payable upon life

* NOTE.—The word "Cancelment" is here adopted, as being in vogue amongst insurance offices and having acquired a definite technical meaning, although "Cancellations" is no doubt the more correct term.

policies, and also to a recent legal decision attaching certain importance to the fact that a policy had been prepared and signed); in other business it is customary to issue the policy—to the company's representative—as soon as possible after the risk has been accepted, irrespective of whether the premium has been paid or not, the agent, of course, holding the policy on behalf of the company until he receives payment. In practice it frequently happens that, in spite of the proposal having been made and accepted, the agent is unable to collect the premium. He, therefore, returns the policy to the office as a voucher and in reduction of his account.

Further, even with a life office adopting the method which has just been described—and, of course, in other offices—first years' renewal receipts (where half-yearly and quarterly payments are accepted) are constantly returned for cancelment; and the entries in respect of these must be carried to the credit of the Agency Accounts as new business, and similarly dealt with as regards the General Ledger.

Renewals.—

The treatment of the second division of this part of the subject—*i.e.*, "Renewals"—raises no new point.

General Rules.—

The entries in the Cancelment Journals must always be made in detail—whether they relate to new business or otherwise—for they have a three-fold application:—

- (1) They must be carried to the accounts of the agents interested.
- (2) They must be totalled for the General Ledger; and
- (3) They must be folioed back to the Renewal Registers and the Policy Register, and the corresponding entries duly cancelled therein in detail.

Consequently, in addition to the column containing the agents' Ledger posting folio, there must be columns for the Register folios; and if half-yearly and quarterly cases exist, and are entered twice or four times respectively in the Renewal Registers, as referred to in the last chapter, a corresponding increase in the number of folioing columns will be necessary (if the work is to be properly checked) and cumbersome.

All returned policies and receipts are given a voucher number before filing, and a column is also required to contain this.

Form.—

In simple cases—*i.e.*, in offices not accepting half-yearly and quarterly premiums, and also not charging “odd time to quarter-day”—the ruling for both new business and renewals will be practically the same, and, inasmuch as the entries in these books will be few by comparison with those in the Premium Journals, one book (divided by a leather tab) may frequently be utilised for both returned policies and receipts.

If the system of charging up "odd time to quarter-day" be in force a separate Cancellation Journal for new business will become necessary, and the ruling will be a counterpart of that of the debiting Journal, with the addition of a column for "Voucher Number."

If first year's renewals are included in the New Business Debiting Journal the New Business Cancellation Journal will follow the ruling thereof, and a column must then be added for "Date of Expiry of Risk"—a matter of not a little importance.

A *pro formâ* ruling for the Renewal Premiums Cancellation Journal is given in Form No. 13.

Form 13.—
RENEWAL PREMIUMS CANCELMENT JOURNAL.

[illegible]

A Variation.—

It appears to be the practice in some offices, where the Renewal Registers are opened according to the name of the agent, not to debit out the renewal premiums until after the return of the Renewal Lists, with the receipts for cancellation, and then to debit the Agents' Accounts with the net amount of premiums only after the cancelling entries have been put through the Registers.

This plan is, however, hardly to be recommended, for the reason that it establishes a difference in treatment between new policies and renewals.

CHAPTER V

**THE AGENTS' LEDGER, AND MATTERS
CONNECTED THEREWITH.**

HAVING made the necessary entries in the Premium Journals, it will be convenient now to follow them into the Agents' Ledgers; and also to treat of the form of account used between the company and its representatives. Before doing so, however, a digression must be made for a few remarks upon—

- (1) Branch Accounts;
- (2) Commission;

the latter having a close connection with, and bearing upon, both the form of the Ledger and that of the Statement of Account.

BRANCH ACCOUNTS.

There are two principal systems upon which the transactions of the Branch Offices are recorded by the Head Office:—

- (1) Some companies keep the accounts of all agents, wheresoever operating, at the Head Office. This is more frequently the case with small or newly established companies, the business of which has not reached sufficient proportions to warrant the expense of keeping a staff of clerks at the various Branches. Under this system only premiums receivable without the intervention of an agent are debited to the Branch.

(2) Many of the larger companies arrange that the Branch Offices shall relieve the Head Office of detail work wherever possible, and, consequently, that the former shall keep the accounts with all the agents working under them. This plan necessitates debiting the Branch with all the premiums resulting from the district controlled by its operations. It, however, facilitates dealing with over-riding commission, as will be seen later.

In view of the fact that System No. 1 provides the best groundwork for the consideration of the treatment of over-riding commission, and also gives rise to most of the difficulties relating thereto, it will be dealt with first.

Before passing to the subject of Commission, however, it will be well to say a word or two upon matters of a general nature bearing upon Branch Accounts.

Under the first method above described it will be found in practice that agents will from time to time send in their accounts to the Branch Office, where, of course, the money is not refused. The best way to deal with such cases is to make it a rule that the Branch shall send up to the Head Office these accounts, with corresponding remittances, as and when they are received. If this is not done a Transfer Journal will become necessary, and the Branch Account is apt to become involved; while the Agents' Ledger, containing, as it thus will, a number of cross-entries, will lose some of that clearness which is to be aimed at in every system of account.

An excellent method, under either plan, of maintaining a careful check upon the expenditure, &c., of the Branch Office is to require two banking accounts to be kept at the Branch—one for the purpose of receiving all premiums payable to the Branch, and which is to be operated upon by the Head Office only; the other to be used in respect of all payments made by

the Branch, and to be replenished by cheque paid in, or sent, by the Head Office for that purpose.

The keeping of Branch Accounts gives rise to many interesting points, but it is clearly impossible within the limits of the present volume to deal with many of these. The subject is, however, referred to again at the end of this chapter, and from time to time, where it has appeared necessary, throughout this work.

COMMISSION.

The subject of commission is a most important, and, indeed, a fundamental, one. It to a large extent determines the form of the Agents' Ledger and Statement of Account.

The greater part of the business of insurance companies is subject to commission, the exceptions being—

- (a) Business transacted by such of the life offices, founded upon the mutual principle, as employ no agents.
- (b) Business placed with the company without the intervention of an agent, or (in many cases) of a Branch Office.

The commission paid falls under two heads:—

- (1) The ordinary Agency Commission;
- (2) The Over-riding Commission.

Agents' Commission.—

The ordinary Agency Commission is theoretically at a fixed rate for all duly appointed agents, although occasionally the rate varies according to the description of the business procured, and frequently a further variation arises from the not uncommon practice of paying a higher rate upon first years' premiums than is paid upon renewals.

Fire companies pay a uniform rate on new and renewal premiums, but a lower rate upon hazardous business than in respect of ordinary risks.

Life companies allow a larger commission on new business than upon renewals—in fact, the commission here is often a commuted one payable out of the first annual premium. There are two scales of remuneration attaching to life business. The first, known as the old scale, is represented by a percentage on the *premium*, and carries a lower rate on the renewal premiums after the first year. The second, or new scale, consists of a percentage on the *sum assured*, with, in some cases, a very small percentage on the *renewal premium*. Under the new scale, however, several offices pay nothing on renewals. It should, perhaps, be pointed out here, for the sake of clearness, that in the instance of half-yearly cases one-half of the commission on the sum assured—where the commission is based upon this—is paid in respect of each of the first two premiums; and, as regards quarterly cases, one quarter of the commission is paid in respect of each of the first four premiums. In other words, the agent obtains his full commission under the new scale only if and when the business results in a full year's premium being received by the office.

Accident and contingency companies—the latter term covering a multiplicity of risks—often pay a higher rate on new premiums than on renewals, and a rate differing as regards both new business and renewals, according to the various departments. Thus, there may be one set of rates for Burglary, another for Plate Glass, and a third for Sickness business. The tendency, however, is now, happily, towards a uniform rate for all business, irrespective of the department, and of whether it is “new” or “renewal,” and by so much is the proper keeping of the accounts facilitated.

Over-riding Commission.—

Over-riding Commission arises as follows:—

Many Branch Managers—and in localities where there is no Branch Office, many District Agents—have the right, and are

expected, to introduce ordinary agents to the company, and are paid a small percentage on the business completed by these agents, and also an additional percentage at the same rate on business which they themselves introduce. In the latter case the full rate of commission—*i.e.*, the ordinary commission, plus the over-riding—is usually deducted by the Branch or District Agent in full when remitting. But, as regards the over-riding commission on agents' business, where the accounts with the agents are kept at the Head Office, a statement is either made up by the Head Office and sent to the Branch for confirmation, or submitted by the Branch and checked by the Head Office. These statements often lead to considerable correspondence, as the system of dealing with over-riding commission is in many offices weak, to say the least. A not unusual method is to make out summaries of the accounts of agents operating in the district under review upon loose sheets, and this generally results in leaving out some of the accounts which should be included and in including others which should be left out, and is in other respects unsatisfactory.

As will have been seen from the foregoing, over-riding commission is payable, and requires to be calculated upon a part only of the company's business—cases coming direct from the proposer to the Head Office, and those received from agents who are unattached to any Branch, &c., being exempt—and it is suggested that in many cases its incidence can be more or less easily provided for by the following plan, *viz.* :—

To have a column for Branch, &c., and a corresponding posting column in the Premium Registers and/or Journals, including the Cancellation Journals, as has been already shown, and to post the necessary items therefrom (in bulk where practicable) to an Over-riding Commission Ledger, in columnar form, to the account of the Branch or District Agent, as is shown in Form No. 14.

Form 14.—

Rates of Over-riding Commission.

New Business .. 5 %

Renewals 2½%

Details.

OVER-RIDING

Branch, &c.,

Date	Agent	Town	Policy Number	Name of Insured	Folio	Cancelments		Premiums	
						New	Renewals	New	Renewals
1904 Jan. 1	E. Duguid ..	Kirkstall ..	S. 11	Riches ..	4	£ s d	£ s d	£ s d	£ s d
14	A. Goodman..	Leeds..	P. 24	Pound ..	4	..	..	3 19 6	
25	"	"	First year's	renewals ..	18	..	..	15 0 9	
"	J. Goodchild .	"	Renewals	..	26	..	..	..	34 19 3
Feb. 2	E. Duguid ..	Kirkstall ..	S. 11	Riches ..	9	1 14 6	..	20 14 9	34 19 3
"	J. Goodchild	Leeds..	..	..	19	..	1 0 0	1 14 6	1 0 0
								£19 0 3	£33 19 3

Where business is transacted in several departments, *and the rate of commission payable varies in regard to each*, the necessary provision is easily made by sub-dividing the Premium columns in the manner already discussed under Premium Registers and Journals.

The matter of Over-riding Commission Accounts is further discussed later on in this chapter.

The settlement as regards over-riding commission usually takes place after sufficient time has been allowed to elapse to ensure the collection of most of the accounts from a given district, and the only point remaining to be considered is whether the Branch or District Agent is to suffer the loss of commission on any accounts which thereafter result in "bad

COMMISSION LEDGER.

LEEDS.

Dr.

Cr.

Date	How Settled	Folio	Amount	Date	How arrived at	Total Commission Payable
1904 April 11	To Cash	30	£ s d 1 16 0	1904 Mar. 31	By 5% on £19 os. 3d. ..	£ s d 0 19 0
				"	" 2½% on £33 19s. 3d.	0 17 0
			£1 16 0			£1 16 0

debts." These, however, in a well-managed office are usually so few as not to present any serious difficulty, and they can readily be summarised when they do occur, and set off in future accounts where such a course is considered necessary.

The reasons for introducing the subject of commissions at this stage will be apparent when we come to consider the ruling necessary for the Agents' Ledger and Statement of Account.

The Account Form.—

As has been pointed out above, a variation in the rate of commission paid often exists between—

- (1) The different departments of business carried on by the same company.
- (2) The new, or first year's, premiums and renewals.

It follows, therefore, that premiums should be grouped in such a way in the statement of account—whether it be prepared and sent out by the office, or, following the system of some companies, made up by the agent on the form provided for that purpose—as to render the amount to be deducted by way of commission readily ascertainable and easy to be checked.

To give an example *in extenso*, let us suppose a Contingency Company paying on:—

				<i>New.</i>		<i>Renewals.</i>
Burglary	..	..	..	20 %	..	17½ %
Plate Glass	..	..	..	15 %	..	12½ %
Sickness	..	..	..	10 %	..	5 %

Here we have six rates of commission to be provided for, and the only practicable method of dealing properly with the matter will be to have the debit side of the account forms ruled on the columnar plan. (See Form No. 15.)

Where one rate of commission is payable throughout, matters are greatly simplified. In such a case it will, no doubt, still be desired to show new premiums separately from renewals—the former being, in the majority of instances, entered in detail; the latter, wherever practicable, in bulk—but beyond this no other division need be made. If the rate of commission varies in respect of new and renewal business only, the form will be practically the same. The necessary outline is given in Form No. 16.

[illegible]

* NOTE.—Agent to deduct cancellments when making up account.

A. GOODMAN, Agent at Leeds.

Date 10th April 1904.

IN ACCOUNT WITH

THE MARBLE HALLS INSURANCE COMPANY, LIM.

HEAD OFFICE: BULLION CORNER, LONDON, E.C.

Cr.

Dr.

Date of Entry or Due Date	Policy No.	Name of Insured	New Premiums	Renewal Premiums	Total
1904	To Premiums as under:—		£ s d	£ s d	£ s d
Jan. 14	P. 24	Pound	3 19 6		
25	..	First Year's Renewals	15 0 9		
"	..	Renewals .. ..	..	24 1 0	19 0 3
					24 1 0
By Commission on New Premiums, £17 os. 3d. at 15 % 2 11 0					
" Commission on Renewals, £23 10s. od. at 10% 2 7 0					
By Remittance herewith					
					4 18 0
					35 12 3
Signature of Agent A. Goodman.					£ 43 1 3
Date 21st May 1904.					£ 43 1 3

AGENTS' LEDGER.

Name.....

RATES OF COMMISSION.

RATES OF COMMISSION.	
<i>Renewals—</i>	
Burglary	%
Plate Glass	%
Sickness	%
<i>New—</i>	
Burglary	%
Plate Glass	%
Sickness	%

Dr.

[illegible]

probably be of value as suggesting the lines upon which a possibly advantageous development may be worked out.

Another provision for obviating the indefinite multiplication of Premium columns—and which will work well enough where a company has certain leading departments, and others in which only occasional business is done—is to have a column in the debiting Journals (and Agents' Ledger, where this is necessitated by a varying rate of commission) for each of the principal divisions, and a "Miscellaneous" column, the contents of which are analysed at short intervals, for the purposes of posting to the General Ledger, if further extended classification therein is considered necessary or desirable. Under this plan the commission payable upon any policy falling under the heading of "Miscellaneous" would be separately marked upon the statement of account when sent out.

In closing these remarks upon the "ordinary" commission it may be as well to again emphasise the fact that the better way of dealing with the matter is (wherever practicable) to arrange that the rate payable shall be uniform throughout, irrespective of the department. A variation between the rate paid upon new business and that paid upon renewals is, of course, immaterial under the systems given.

Form No. 18 shows the ruling for the Ledger when the rate is uniform for all departments, and is applicable to cases where the rate paid upon new business and renewals is the same, and to those where it varies as regards new business and renewals only. For instance, where, say, 15 per cent. is payable upon new business, irrespective of the department, and 10 per cent. upon renewals.

The column headed "Sundries," in Forms 17 and 18 is advisable to contain entries of commission paid in cash, &c.

Bringing down Balances.—

One other point of considerable importance here remains to be discussed. When a claim arises, the first thing to be done is to ascertain whether the particular policy is in force, claims under lapsed policies (made through ignorance, oversight, or otherwise) being by no means uncommon. If the agent's account has been settled and the case has lapsed, a reference to the Renewal Registers or Policy Registers will at once show the position. If the agent's account is outstanding the matter can be checked only by communicating with the agent, or calling upon the insured to produce the last receipt. But if part only of the agent's account has been paid, and a balance brought down, a considerable difficulty, particularly where the account is a large one, at once presents itself. This leads us to the following rule, the strict observance of which will save much time and worry:—

Whenever a balance is brought down upon the Agents' Ledgers *always* specify clearly the items of which it is composed.

This is easily done at the time, because particulars of the items in respect of which payment is made are ready to hand. But if this rule is not observed, and a general balance from time to time is brought down, the tracing of the payment or otherwise of any specified premium may, and frequently will, necessitate the unravelling of the whole account from the date when the *Dr.* and *Cr.* sides last balanced exactly.

The denoting of the composition of the balance brought down will not necessarily entail the re-copying of the entries, but a judicious note or two in conjunction with a simple system of marking in red ink—using, preferably, the letters of the alphabet—will, in most cases, enable the items to be at once ascertained.

Take as a sample entry—

1904									
Feb. 1.	To Balance brought down	..	..	..	..	..	..	£24	19 6
	Note: Consisting of New Premiums marked "a" ..	..	..	..	..	..	..	£14	19
	January Renewals ..	..	..	..	..	..	..	£15	0 0
	Less Renewal G. 14,466 paid ..	..	..	..	..	..	..	4	19 6
								10	0 6
								£24	19 6

or,

1904									
April 1.	To Balance brought down	..	..	..	..	..	..	£15	14 3
	= Items (New and Renewals) marked "b" ..	..	..	..	..	..	..	£15	16 0
	Less: Cr. of Commission not deducted on Policy	..	..	..	..	..	..	0	1 9
	S. 1,156 ..	..	..	..	..	..	..	0	1 9
								£15	14 3

At the end of the financial year most of the items relating to the entries for the last month will be unpaid, and very little extra work will be entailed by the system recommended.

As an example—

1905									
Jan. 1.	To Balance brought forward	..	..	..	..	..	..	£55	1 7
	= December Premiums ..	..	..	..	..	..	..	£53	1 0
	and Policy P. 5,567 (November) ..	..	..	..	..	..	..	2	0 7
								£55	1 7

The neglect or ignorance of this simple precaution has often led to hours of patient drudgery. And on this point the author can speak not without experience.

It need hardly be added that whenever the two sides of an account agree, advantage should at once be taken of the fact to "rule off."

PART II.

OVER-RIDING COMMISSION FURTHER CONSIDERED.

REFERENCE was made in the first part of this chapter to a system of keeping "Over-riding Accounts" by posting from the Journals or Registers, the rulings of which books have been outlined in the forms given, partly with a view to this plan. This system appears to be theoretically the correct one, where the whole of the accounts are kept at the Head Office, and it has, therefore, been put forward as forming the best basis for the discussion of the matter. Moreover, it will probably be found to work well enough in many cases. But it pre-supposes that, as regards the business of agents, the rate of over-riding commission will, for all practical purposes, be the same in respect of *each* agent attached to any particular Branch, although varying, perhaps, considerably—

- (1) As between new business and renewals;
- (2) As between the different departments of the business—*e.g.*, Burglary, Plate Glass, and Sickness.

There can, of course, be no question that the easiest method of dealing with over-riding commission, from the point of view of the keeping of the accounts, is to pay a *uniform* rate, or rates, in respect of the business of every agent controlled by the Branch, which, of course, simplifies matters considerably. But in actual practice—and it is the practical side which must always be considered—a complication often arises as follows:—

Agents introducing a large amount of business will frequently receive an increased rate of commission, and the rate of "over-riding" payable to the Branch will be reduced in proportion.

Suppose a case. The normal rate payable in respect of, say, personal accident business, shall be 15 per cent. on new business and 10 per cent. on renewals; and the over-riding commission payable to, say, the Birmingham Branch, shall be 10 per cent. and 5 per cent. respectively, making the total payable in respect of the business 25 per cent. and 15 per cent. Messrs. Sharp & Keen, agents, are, however, given special terms—*i.e.*, 20 per cent. and 15 per cent.—and the Branch therefore receives on cases introduced by them commission upon new business only, and that at the rate of 5 per cent. Messrs. Smart and Slow, doing a larger amount of business than the ordinary agent, but less than the first-mentioned firm, are given $17\frac{1}{2}$ per cent. and $12\frac{1}{2}$ per cent., and the Branch therefore receives $7\frac{1}{2}$ per cent. and $2\frac{1}{2}$ per cent. respectively, the intent being that the maximum total commission shall in no case exceed the total amount above stated—*viz.*, 25 per cent. and 15 per cent.; and the argument in support of this arrangement is that what the Branch loses in rate on these agents is made up for in quantity.

Here, then, a complication arises, and the problem for discussion is how may this innovation best be provided for.

Clearly, where *special* agents are numerous, the posting to the Over-riding Commission Ledger cannot without considerable and unnecessary trouble be made from the Premium Journals or Registers; and the Agents' Ledger must, therefore, be made to form the medium from which the necessary entries are to be collected. So far as the "Over-riding" Ledger is concerned, the form already given may be used, and a special account, or accounts, opened for the business of special agents, who will generally be few; or the sub-divisions of the Premium column may be made according to the rate of commission payable, and a column added, headed "Department," as already discussed in relation to the Agents' Ledger. The Agents' Ledger, how-

ever, will occasionally need some modification, in order properly to meet these new requirements.

We shall proceed as follows, to take an extreme case of the rate varying with each department:—

First, retaining the outline of the Agents' Ledger given in Form No. 17, we shall split up the "Cancelments" column into new business and renewals, and also into departments, as shown in Form No. 19.

There are then two ways of concluding the matter.

(1) We can post the columnar gross totals of the premiums and cancelments to the Over-riding Ledger, and bring down any balance on the Agents' Ledger to the "Sundries" and "Total" columns only. This method will have the effect of giving the Branch credit for more premiums than have actually been received, but will, as regards cancelments, correct itself from time to time in account.

(2) We can deduct any balance unpaid from the premium debits, as shown in Form No. 19 (taking care to bring down the items composing the balance into the proper departmental columns, and to include them in the additions at the next ruling off), and post the net premiums and the cancelments as before described.

This method will obviate the necessity of adjusting the Over-riding Accounts as regards "bad debts," &c.

The plan of using the Agents' Ledger as the basis of the system of dealing with over-riding commission, although it gives a little more trouble at balancing periods, has this advantage—it allows of the entries being dealt with in bulk, and, if details are required, presents no difficulty to collecting them. Small credit items for ordinary commission outstanding upon the Ledger Accounts should be forwarded to the agents out of Petty Cash, or from the General Manager's Account, and so disposed of prior to the balancing period.

Form 19.—

AGENTS'

(Showing treatment of Over-

Name.....

RATE OF AGENT'S COMMISSION.

				New :		Renewals :
Burglary	..	..	..	15 %	..	12½ %
Plate Glass	..	..	..	20 %	..	17½ %
Sickness	..	..	..	17½ %	..	15 %

OVER-RIDING

Payable to.....

Dr.

Date	Policy Number	Name of Insured	PREMIUMS								Folio	Sundries	Total
			New Business				Renewals						
			Folio	Burglary	Plate Glass	Sickness	Folio	Burglary	Plate Glass	Sickness			
1904 June 17	S. 44	W. Blake	19	£ s d	£ s d	£ s d 2 0 0		£ s d	£ s d	£ s d		£ s d	£ s d
20	B. 107	F. Smith	23	0 10 0									
22	P. 88	G. Brown	40	.. ..	1 10 0								
25	..	First Year's Renewals ..	70	2 15 0	0 18 9	5 17 0							
"		Renewals .. ..	..	.. ..	.. ..	.. ..	18 1	6 0 0	0 10 0	4 10 0			
		Deduct Balance, carried down, as per contra .. ..	..	.. ..	.. ..	.. ..	.. ..	6 0 0	0 10 0	4 10 0	..	..	24 10 9
				3 5 0	2 8 9	7 17 0	..	6 0 0	0 10 0	4 10 0	..	..	24 10 9
1904 Aug. 11	..	Balances brought down — Policy P. 19, H. Ross..	..	O./Com. Led. 24	O./Com. Led. 24	O./Com. Led. 24	..	O./Com. Led. 24	O./Com. Led. 24	O./Com. Led. 24	..	.. £	24 10 9
			..	.. ..	.. ..	.. ..	.. ..	0 5 0	..				0 5 0

LEDGER.

riding Commission therein.)

Town.....

RATE OF OVER-RIDING COMMISSION.

				New :		Renewals :
Burglary	..	..	..	10 %	..	7½ %
Plate Glass	..	..	..	5 %	..	2½ %
Sickness	..	..	..	7½ %	..	5 %

Cr.

COMMISSION

[illegible]

One other remark must be made. The variations in the rate of over-riding commission will not be many, and will usually take the form of $2\frac{1}{2}$ per cent., or of multiples thereof.

It should also be pointed out that inspectors of agents attached to the Head Office are frequently remunerated partly by salary and partly by commission, and that accounts in which they are interested will require to be kept on similar lines.

PART III.

FURTHER AS TO BRANCH ACCOUNTS.

WHERE the total commission (*i.e.*, the ordinary plus the over-riding) payable to the Branch upon all business, whether its own or that of its agents, is made up to a fixed rate, or rates, as in the foregoing example; or (2) where the only variation is between the total amount, or amounts, payable in respect of the Branch's direct business and that of its agents—and this is usually the only form of variation that will occur as regards the *total* rate—an alternative method is frequently adopted, more especially by offices carrying on extensive operations.

By this system the whole of the business coming in from a given district, whether through the agents, or the Branch without the intervention of an agent, is debited to the Branch, and the latter is made responsible for the keeping and collecting of all accounts with its agents. In the first instance mentioned above—*i.e.*, where a variation does not exist between the maximum commission paid on the business of the Branch and that of its agents—one account only need be kept in the Agents' Ledger, in the name of the Branch. In the second case above mentioned two accounts must be opened—one for

the "direct" business of the Branch, and the other for the business of its agents. These accounts are frequently kept in grand totals, but whether this is so or not the total commission, after allowing for cancelments and "bad debts," is simply calculated periodically *en bloc*, and the Branch is left to settle all details with its agents.

In order to reduce as much as possible the work of dealing with these accounts at the Head Office, the following arrangements are commonly made:—

(1) A separate set of Registers (or a separate division of the Registers) is used for the business resulting from each Branch and its agents, the pages being further sub-divided as regards

- (a) Direct Business,
- (b) Agents' Business,

only if necessary.

(2) The Branch Cash Book is made to give in detail the particulars (such as Agent, Policy Number, Name of Insured, &c.) relating to *every* premium received,

- (a) Whether new business or renewal;

(b) Whether received direct or through an agent; and a copy of this Cash Book must be forwarded daily, or weekly, to the Head Office.

(3) A column must be added to the Registers to contain the date upon which the premium was received by the Branch (in the Renewal Registers a column for each year will be necessary); or a system of ticking the paid items adopted, and the accounts as sent up by the Branch kept handy for reference—some offices favouring the first method, others the second.

The totals of the Registers are posted to the debit of the Branch in the Ledger, either direct or through the medium of the Premium Journal, as already discussed, and the amount outstanding at any time is represented by the items not marked off in the Registers. At balancing periods the details of any sum outstanding should be inserted in the Ledger Account; and, of course, the Branch will be called upon to produce policies or renewal receipts in respect of any such balance.

In marking up the Registers at the Head Office particular care should be taken to see that, as regards quarterly cases, the correct quarterly entry is marked. For renewal receipts are issued with only a short interval between, and where a receipt has been held over by the Branch, and payment made somewhat late, it sometimes happens that the premium in respect of the next quarterly payment is by mistake marked as paid, with results which are unfortunate. Agents should also be warned on the matter of quarterly receipts; for if, for instance, a June receipt is inadvertently given in exchange for a premium due in March, and paid late, it might prove a very difficult matter, in some cases, to collect the June payment; while, in the event of a claim arising, the possession of the June receipt might well be held to keep the policy in force until the following September.

CHAPTER VI.

THE CASH BOOKS.

PART I.

THE PREMIUM CASH BOOK.

REFERENCE was made in Chapter I. to the fact that the sources from which the income of an insurance company is derived are broadly divisible into two sections—

- (1) Premiums;
- (2) Interest or Dividends on Investments, Rents, &c.;

and those as to Expenditure, or Outgo, into—

- (1) Claims;
- (2) Working Expenses.

In view of these clearly marked divisions it is not surprising to find that it is a very common, and in some cases a very necessary, practice to employ more than one Cash Book, the volumes used generally resolving themselves into one principal book and various subsidiary ones.

Whatever system is adopted, it is assumed that all moneys received by the company are paid into the bank (and this, as far as possible, on the day of receipt), and that all payments are made by cheque, excepting only the small items, which are paid out of petty cash.

There appear to be two principal methods in force of dividing up the Cash Book.

(1) To have one book in which to record the entries relating to the receipts, and a separate book for the entries as regards payments. This plan necessitates keeping a Cash or Bank Account in the General Ledger, and appears to have little to recommend it. It is, therefore, not proposed to discuss it further here.

(2) To employ the following books:—

(i.) A Premium Cash Book, which is often, again, sub-divided into—

(a) Head Office Premiums.

(b) Agency Premiums.

(ii.) A General Cash Book, into which the totals of the Premium Cash Books are carried daily.

Under either system the following additional books will frequently be employed:—

(3) A Claims Cash Book.

(4) A Manager's Disbursements Book.

And, of course, it is always necessary to have—

(5) A Petty Cash Book.

Head Office Premiums.—

In considering the Cash Book as relating to Head Office premiums, it is necessary to bear in mind that the premiums receivable in respect of Head Office business are, as a rule, payable by the insured direct, without the intervention of an agent, and consequently are not subject to commission or other deduction. The phrase "as a rule" is employed because in some companies it is customary to deal in the Head Office Account with the business of "Cash Agents."

A Cash Agent is one to whom commission is allowed, but who must pay cash against both policies and renewal receipts before they are handed to him. The practice referred to, while it saves the opening of Ledger Accounts, has little else to recommend it, and it is always preferable that no cases bearing a commission should appear in the Head Office Account. Any departure from this salutary rule might make it necessary to consider each item separately, should a leakage in regard to the amount of commission paid in respect of this account be at any time suspected; and such a proceeding would, at the best, prove a long and tedious operation, while in a large company it might become practically impossible, owing to the mass of papers relating to the various policies in force which would have to be consulted in detail.

A further consideration with regard to this book is that in the instance of Head Office premiums it is essential that the policy number and the name of the insured should be recorded against each payment received, otherwise it will become impossible to trace whether a specific premium has been paid or not.

The general plan of this book will, consequently, be as shown in Form No. 20.

It should here be noted that there is no necessity for dividing the premiums according to the department of business—*i.e.*, Burglary, Plate Glass, Sickness, &c.—as the necessary classification has already been arrived at by means of the premium debits. It will also be seen that, under the method above advocated, a Commission column in this Cash Book becomes unnecessary.

A Variation.—

It has just been stated that the particulars relating to the payments as regards Head Office premiums must be given in detail in the Cash Book, and it follows that in this instance the

Form 20.—
PREMIUM CASH BOOK, No. 1.—HEAD OFFICE (DIRECT) PREMIUMS.

Date	Policy Number	Name of Insured	Due Date	Ledger Folio	Premium	Amount carried to General Cash Book	Folio—General Cash Book	Remarks
					£ s d	£ s d		

Ledger Account, if the payments are to be posted thereto in detail, should contain the debits, both as regards first premiums and renewals, also in detail.

But here it should be pointed out that an excellent system of dealing with Head Office premiums exists in some offices, and one which has everything to recommend it. Assuming that separate Premium Registers are kept for Head Office "direct" cases, including new business (in which event a separate series of policy numbers will be allocated to these cases), it can be readily seen that by the addition of columns for "Cash Book folio" and "Date of Payment," the Registers may be made to contain all the essentials of a Ledger Account, and that the payments, or a note thereof, may be posted direct from the Cash Book to them. The foot-note *b* on page 52 has reference to this innovation.

The advantages of such an arrangement are apparent.

The chief are:—

(1) It does away with the necessity for posting the debits to the Ledger in detail, which otherwise must be done, and resolves itself into a matter of simple copying of the pages of the Registers.

(2) It shows at once whether or not any premium has been paid, and this with no more work than would be necessitated by the posting of the payments in detail to the Ledger. For the Head Office Account must be kept in detail somewhere, or a system of keeping and marking up "Advice Letters" and "Renewal Lists" resorted to, which means more trouble, and is not so satisfactory.

(3) It enables the Head Office Account in the Ledger to be kept in totals (the periodical total of the cash received being obtained by addition of the Cash Book).

(4) It allows of the Registers being at any time easily balanced with the Cash Book, the Cancellation Journals, and the policies and receipts in the hands of the cashier. A very effective check is thus arrived at, while the details of the items composing the balance are at once ascertainable.

Under this system the new policies and renewal receipts in the hands of the cashier at balancing periods should always be clearly denoted upon the Ledger Account, which will thus retain a permanent record of how each balancing of the account was effected, and a substantial safeguard against the record in the Registers becoming involved will be the result.

A system of making red ink ticks in the Registers against the premiums paid is sometimes resorted to (instead of the addition of columns, as just described), but this is not so satisfactory, in this account, as it considerably reduces the clearness of the record, and makes it more difficult to locate an error should one arise.

As the posting of the premiums will have to be made to different sets of Registers, an extended ruling of the Cash Book is desirable. (See Form No. 20A.)

Agency Premiums.—

Premiums receivable from agents are upon a different basis, inasmuch as they are always subject to one or more deductions. The first allowance is by way of commission, which is universal where agents are employed. There are several offices, moreover, which allow—up to a moderate amount—the cost of postage expended in securing and carrying on the business. In some cases (where the operations of the company necessitate the making of medical examinations) the agent is often authorised to pay the doctor's fee, which he (the former) deducts from his account when remitting. And the agent is by special arrangement sometimes also allowed items for advertising, and similar matters.

Form 20a.—
PREMIUM CASH BOOK No. 1.—HEAD OFFICE (DIRECT) PREMIUMS.
(Suitable for Improved System discussed on pages 87 to 90.)

Date	Policy Number	Name of Insured	Due Date	How Payable?	Register Folio	First Premiums	Register Folio	First Year's Renewals	Register Folio	Renewals	Details	Daily Total	General Cash Book.	Remarks
						£ s d		£ s d		£ s d	£ s d	£ s d	General Cash Book Folio.	

* Annually, Half-Yearly, or Quarterly.

Form 21.—

PREMIUM CASH BOOK No. 2.—AGENTS' REMITTANCES.

1	2	3	4	5	6	7	8				9	10	11	12				
Date	Agent	Town	Month or Quarter of Account	Account (Voucher) No.	Total Cash and Allowances	Folio Agents' Ledger	Allowances							Cash	Daily Cash Total	Folio General Cash Book	Remarks	
							A.	B.	C.	D.			Folio General Ledger (Dr.)					III. Amount
										I.	II.	III.						
							Commission	Postage	Medical Examiners' Fees		I. Details	II. General Ledger (Dr.)	III. Amount					
1904 Aug. 24	W. Carter..	Rye..	June	61	£ s d 10 5 0 180		£ s d 1 0 9	£ s d 0 1 3	£ s d ..	*Address Cards (Stationery)	41	£ s d 0 3 0	£ s d 9 0 0	£ s d 26			*See Letter B 16/4 1904	

All items of a class frequently recurring are provided for by means of separate columns, and allowances of doubtful frequency are provided for as "special allowances." (See Form No. 21.)

Notes on Form 21.—

Col. 5. Account (Voucher) Number.—Every statement of account showing deductions for commission, &c., must be signed by the agent as a receipt, and carefully preserved at the office as a voucher. This is a most important matter, but it does not always receive the attention it deserves.

Col. 6. Total Cash and Allowances.—The figures shown in this column may be posted to the Agents' Ledger as "Cash, &c."—instead of those in the extended columns—if it is desired to further reduce the amount of detail work.

Col. 8d. Special Allowances. Sub-column II.—Frequently special allowances are posted in bulk to *one* account in the General Ledger. Some offices, however, make a monthly or quarterly analysis and summary of these in this Cash Book—a method which does not tend to produce precision.

The special folio column for posting to the General Ledger is here given as showing the more exact way of dealing with these items where it is desired to carry them to different accounts in the General Ledger. These special allowances will be few by comparison with the other deductions, and care should be taken to see that they have been duly authorised before they are passed. A reference to this authorisation may be conveniently given in the "Remarks" column, or shown on the form of account.

The writer may, perhaps, here be allowed to express his somewhat strong objection to the analysing of columns of miscellaneous figures in books of account where it can be avoided;

such a course being a prolific source of inaccuracies, the results being difficult to check, and the whole process occupying, more or less unprofitably, a considerable amount of time.

It should be observed that, as regards Commission, Postage, &c., the figures for the General Ledger are arrived at periodically (as a rule monthly or quarterly), the totals only being posted. This matter will, however, be again referred to when the subject of the General Ledger is reached.

Objection is sometimes made to entering deductions for commission, &c., in the Cash Book, as being wrong in theory and faulty in principle; and a separate book, ruled in columnar or tabular form, to contain entries of these is employed in some offices, and frequently known as the "Charges Journal." The practical advantages—which are at once apparent—of combining the whole of the entries in one book would, however, appear to more than outweigh any other consideration.

Sometimes a Cash Book is specially ruled to contain both Head Office and Agency premiums; but, seeing that the treatment of each class is entirely different, there is little doubt that the clearer method is to have separate books, as above described. If, however, one book only is desired, the ruling becomes a simple matter, embodying the features of the two forms already given, and need not be here produced.

One or two small points remain to be considered before we pass on to the next division of the chapter. Occasionally—although, it may be supposed, rarely—an agent sends up his account in full, without deducting commission. In such a case the best method of dealing with the matter is to pass a credit entry through for commission in the ordinary way, and to promptly send a remittance for the amount to the agent, and so clear the books.

It may also not be out of place here to point out that where a company conducts operations in two or more of the main divisions of the business—*i.e.*, Fire, Life, Marine, &c.—a separate set of books throughout will generally be employed for each of these divisions.

Cash Agents, &c.—

It has been previously recommended that no items bearing commission be allowed to figure in the Head Office (Direct Business) Account. Accounts with agents collecting only one or two premiums per annum may, however, often be grouped together, as is done in other businesses; and this matter, being one of a general nature, need not here be further discussed.

PART II.

AS TO CLAIMS.

THE CLAIMS CASH BOOK.

BEFORE dealing with the General Cash Book, it will be convenient to consider the Claims Cash Book; and before discussing the latter, a few general remarks as to the routine relating to claims may prove useful.

So far our attention throughout has been almost entirely confined to the larger division of the *receipts* side of the business—*i.e.*, premiums. We must now, however, pass to the larger division of the opposite, or *payments* side—*i.e.*, Claims.

General Procedure.—

To begin with, it is usual for policy forms to contain a condition that claims must be notified to the Head Office within a certain number of days from the date of the happening of the event giving rise thereto. This notification, as a rule, takes the

form of a letter, on receipt of which a Claim Form is despatched, with instructions as to how it is to be filled up. The form is a somewhat elaborate printed document, but, as it has no very close connection with the accounts, it is not necessary to give a specimen.

On its return, duly completed, it is entered in a book termed the Register of Claims Advised; and, where business is transacted in various departments, as before discussed, a separate Register will usually be employed for each department. These Registers contain the serial number of the claim, and all particulars relating thereto, together with a note of its ultimate fate—such as “Unadmitted,” “Withdrawn,” “Date paid,” &c.—and usually details of any amounts recoverable by way of re-insurance. They also serve the very useful purpose of showing at the end of any financial year—

- (1) The claims advised but unadmitted at the date of closing the books.
- (2) Claims admitted but not paid.
- (3) Claims in course of settlement—*i.e.*, where, as in the case of a policy covering weekly compensation, the period of disablement is not complete, and the insured has been from time to time paid sums on account.

All these matters have to be taken into consideration when the estimate in respect of “Claims Outstanding” is being prepared.

The entries in these Registers are folioed back to the Policy Registers and/or Renewal Registers, in which a reference to each claim is inserted. The note on the Policy Register is for the purpose of enabling all previous claims relating to the same policy to be easily traced in the event of a new claim arising; that on the Renewal Register for the purpose of indicating where the claims have been abnormal, and, by this means, when

the renewals are gone through, cases which require to be specially considered are at once apparent; for under an ordinary yearly contract or policy there is a limit to the number and amount of claims which an office is content to pay. Of course, all claims arising during the currency of the policy must be run off, but the company (except in the case of such policies as those for life assurance, and what is known as “long term” sickness insurance, &c.) is, as a rule, not bound to renew its obligations. And although, as a whole, the offices must be described as “long suffering,” they sometimes stipulate for an increased premium on renewal, on account of an obviously unusual hazard attaching to certain risks, and occasionally take the drastic course of refusing to renew at any price. The latter is, however, more often occasioned by the “moral” aspect of the case than otherwise; and, of course, if a claim proves to have been dishonestly made, the Registers would be marked at once, “Not to be renewed.” Moreover, policies of any kind may be cancelled on the ground of fraud. If a new policy is issued in place of an old one, the Registers contain a note to that effect, and thus the chain of evidence as regards claims, &c., remains unbroken.

When a claim is advised during the “days of grace,”^d unless the insured has signified to the company direct, or to its agent, his intention not to renew, the office will be liable in respect thereof, and the renewal premium will generally be deducted from the amount of the claim. Where the event entitling the insured to claim occurs shortly before the renewal date, the office must pay the claim up to the amount covered in the policy, notwithstanding that it declines to renew, and even

NOTE *d.*—The term “days of grace” is applied to the days immediately following the due date of renewal, during which the company agrees on its policy and notices to accept the premium—usually 7, 14, or 30 days, according to the nature of the business. Fire insurance almost always bears 15 days (except in the case of foreign business); Life, 30 days; and other departments, 7 or 14, according to the practice of the office.

although the period of disablement (if the indemnity is in respect of incapacity) extends considerably beyond the renewal date. To make this more clear, let it be supposed that a "yearly" accident policy, covering disablement up to 26 weeks, is issued, and falls due for renewal on, say, December 1st. On the 25th November the insured meets with a serious accident, entitling him to weekly compensation. The office may decline to renew the policy, but, as a rule, must pay the insured the weekly sum stipulated for in the policy up to the full 26 weeks, if the period of incapacity continues so long.

Another point to be noticed here is that the company is only liable for the total amount of the policy once in every year; and, in the event of a claim for the total amount arising, the office is entitled to deduct therefrom any sums previously paid in respect of claims during the same policy-year.

It need hardly be pointed out that, with life assurance companies, the claims are always for the total amount, and that, therefore, the foregoing remarks must be read as applying only in a limited sense thereto.

THE CLAIMS CASH BOOK.

A separate Claims Cash Book is not always kept, some offices paying all the larger amounts through the General Cash Book, and the smaller through the Manager's Disbursements Book, or even through the Petty Cash Account—methods of procedure which are not remarkable for their clearness, nor particularly convenient, the full record of claims paid having thus to be obtained from two, and sometimes three, different sources.

The objections to paying all claims through the General Account are twofold:—

- (1) The delay occasioned in getting the signatures of directors—who should sign all cheques drawn upon the

General Account—and the unnecessary trouble which such a course entails.

- (2) The over-loading of the General Cash Book with small items.

The method of paying some of the claims through the Manager's Disbursements Book does not appear to have anything particular to recommend it; and the best way of dealing with the matter would appear to be the plan adopted by many offices of keeping two banking accounts—

- (1) A General or Principal Account;
- (2) A Claims Account.

The latter is a subsidiary account, and is replenished by cheques drawn on the General Account at the company's board meetings in the ordinary way.

The following are the regulations usually made with regard to the Claims Account:—

- (1) All cheques for amounts up to a certain fixed sum are signed by the manager, and countersigned by the accountant, cashier, or other prominent official.
- (2) All cheques for amounts above the limit so fixed are signed by the directors.

Instructions are given to the bankers accordingly, and, if necessary, a No. 1 and No. 2 Claims Account are opened, the Cash Book in such a case being ruled in columnar form, and so as to show at a glance upon which account each cheque is drawn. The limit referred to above is usually fixed sufficiently high to allow of a large proportion of the claims being dealt with out of hand. Items under £1 will, nevertheless, sometimes be paid through the Petty Cash Book, where they occur,

but the latest development in insurance practice is, happily, in the direction of a stipulation that claims under a certain small limit, say, under £1, will not be recognised—an innovation which has much in its favour, for the payment of very small items confers little benefit upon the insured, and puts the office to considerable trouble, as will have been seen from the routine described in this chapter.

The reason for not making all payments through the General Account may be further emphasised as follows. A number of claims, small and large, are constantly maturing for payment, and when a company has once admitted its liability it gains considerably in reputation by making its settlements with great promptness. Indeed, considerable rivalry exists in this respect amongst competitors for business, and if more than one office is interested (otherwise than by re-insurance) the company whose cheque first arrives acquires a certain prestige which the local

Form 22.—*Dr.*CLAIMS
(Showing

Date	Cheque No.			Date	Claim No.	Policy No.	Cheque No.
1904 Sept. 1	10,888	To Cheque on General Account	£ s d 250 0 0	1904 Sept. 2	1,099	S. 1001	55,156
		Brought Forward ..	£ s d 47 10 0				

agent is not slow to turn to account. From this it is obvious that if it became necessary to obtain the signatures of directors to each cheque, frequent delays prejudicial to the company's interests must occur, besides which the members of the board would be put to considerable and unnecessary trouble. The manager, therefore, is empowered to deal with this matter in the manner indicated, the Claims Register and Cash Book being laid before the directors at each board meeting, when cheques on the General Account in favour of the Claims Account are signed.

Under the system just outlined a separate Claims Cash Book is, of course, employed; but where a company transacts business in several departments, in the manner discussed throughout, there are two methods of dealing with this Cash Book—

(1) To enter the amounts paid in one general column, and to look to the Claim Registers to give the necessary classification into departments.

CASH BOOK.

Departmental Columns.)

Cr.

Name of Insured	Branch or District Agency	Agent	Town	Voucher No.	Departments			Total Payments	Remarks
					Burglary	Plate Glass	Sickness		
					£ s d	£ s d	£ s d	£ s d	
Cox, J. L.	Plymouth	W. Longton	Devonport	987	..	..	5 0 0	5 0 0	On Account

(2) 'To rule the book in columnar or tabular form, showing under the proper departmental columns the sums paid.

The first plan seems to be occasionally adopted with the object of preventing a disclosure of the inner details of the business—in some cases to the auditor, in others to members of the staff—the record of claims in the Ledger being contained in a solitary account and in general totals. But it is not one with which the author has much sympathy.

Pro formâ rulings for a Claims Cash Book, showing the departmental classification of payments, is given in Forms Nos. 22 and 23.

Notes on Form 22.—

Branch, Agent, Town.—Where these columns are given, a record of the claims paid in any given district—and through each agency—may be easily made up, and this is often required for the purpose of ascertaining to what extent business in a stated area has proved profitable, or where the reverse has been the case.

Voucher No.—It should be pointed out that the company invariably issues its own form of receipt for signature when making payment in respect of a claim; and that in the event of a total claim, the receipt is endorsed upon the policy, which is thereby cancelled and delivered up to the company. These are points to be borne in mind when the vouchers are being checked.

In the event of a total claim, and consequent cancellation of the policy, the relative entries in the Policy and Renewal Registers will, of course, also require to be cancelled.

Form 23.—

CLAIMS CASH BOOK.

(Showing Extension of Cash Columns where Accounts Nos. 1 and 2 are in operation.)

[illegible]

Deductions in respect of Half-yearly and Quarterly Premiums.—

These premiums, as has been already pointed out, are a fruitful source of trouble. Fortunately, however, they do not occur in every office, and in the offices in which they do occur the number of claims subject to deductions in respect thereof will, as a rule, be small by comparison with the total number of claims paid. But these deductions require very special treatment in the accounts.

Several points must be borne in mind. The sums deducted must, obviously, find their way into the Claims Account in the General Ledger, and form part of the total shown therein. The Renewal Registers must be marked to the effect that the respective premiums have been accounted for, otherwise they will be charged out at the renewal date, and complications will ensue. The Agents' Accounts should be both debited and credited with these amounts; and the agent is clearly entitled to commission upon any such sums, although whether he always receives this may be open to doubt.

The debiting to the Agents' Accounts in respect of these premiums may be made through the Premium Journal in the ordinary way. The best course of procedure as regards the other requirements of the case will probably be found to be to have a specially ruled Claims Cash Book, on the lines laid down in Form No. 24.

Notes on Form 24.—

"Commission."—The column for Commission, upon the debit side, is included here for the same reason as it is included in the Premiums Cash Book.

The division of the receipts (by way of deduction) into departments upon the debit side is made in order to agree with the credit side.

One other consideration must not be overlooked. The effect of dealing with these cases in the manner indicated will be that certain premiums falling due in the ordinary course at a date beyond the close of the financial year will be included in the year's income. This may be overcome, if desired, by a further division of the Premium columns (under the heading of "Receipts by way of deductions to be credited to the Agents' Ledger Accounts") into (1) "Premiums falling due during current financial year, and (2) "Premiums falling due beyond current financial year," the total of the columns under the latter heading being carried to a special "Premiums Paid in Advance Account" in the General Ledger. A corresponding division (or analysis) of the premium debits would then also be necessary.

As against such a division it might—and not without reason—be argued that by specific agreement—*i.e.*, the endorsement on the policy—the amount becomes due at the time the claim is paid, and, therefore, forms part of the income properly attributable to the current year. The matter has, further, some bearing upon the estimation of reserves for unexpired risks; but the general question of these reserves will be discussed later.

It will, however, be convenient here to point out that some companies take credit in the current year's figures, as regards half-yearly and quarterly premiums, for all instalments due beyond the current year which are necessary to complete the policy year—*i.e.*, the second, third, and fourth instalments respectively; or, as the case may be, of any year of the policy's existence, reckoning from the date of the policy, or the anniversary thereof. But, inasmuch as the insured may always allow a policy to lapse during the policy year, and the company has no remedy, such a course—unless a special estimate of probable lapses of these cases is made and brought into account—may have the effect of unduly inflating the premium income for the current year. It is, moreover, troublesome in operation, and the only thing to be gained thereby would appear to be a slight addition to the year's figures, of, in many cases, doubtful value.

Form 25 (continued).—
GENERAL CASH BOOK.
Cr. Side.

Date	Cheque Number	Particulars of Payment	Voucher Number	Investments Purchased	Special Items		Claims Account		Manager's Disbursements Account		Working Expenses	Withdrawn from Bank	Remarks
				Ledger Folio	Amount	General Ledger	Claims Cash Book	Amount	Manager's Cash Book	Amount	£ s d	£ s d	
					£ s d		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	

Notes on Form 25, Cr. side.—

Claims Account.—This column will show the amounts drawn in favour of the Claims Account, and also the folio in the Claims Cash Book, on which the corresponding entries appear.

Manager's Disbursements Account.—This column will be used in a similar manner to the foregoing.

Working Expenses.—The space allotted under this heading will often be sub-divided into several columns, after the manner of the Manager's Disbursements Cash Book. The totals only of these columns will be posted to the General Ledger.

Withdrawn from Bank.—The items in this column will agree in detail with the figures shown in the Cheque Book and Bank Pass Book.

It is the custom in some offices, at the close of each financial period, to pay into the bank to the credit of the General Account the balance of cash in hand shown by the Claims Cash Book, the Manager's Disbursements Book, and the Petty Cash Book—a practice which has many good points.

MANAGER'S DISBURSEMENTS CASH BOOK.

The remarks at the commencement of this chapter will apply equally to this book, an outline of which is given in Form No. 26.

Notes on Form 26.—

Rebates and Return Premiums.—This column may be sub-divided into departments to agree with the Premium and Cancellation Journals, if thought desirable; or, if the entries are few, an analysis at the end of each month will generally sufficiently meet the case.

Blank Headings.—The two columns left blank towards the end of the form are a provision for the future, as, owing to changes in the business from time to time, an additional column is often required. In new companies, especially, one or two blank columns should always be provided in books of this description.

Form 26.—MANAGER'S DISBURSEMENTS CASH BOOK.

Dr. Side.

Date	Cheque No.	Particulars of Receipt	General Cash Book Folio	Amount	Cr. Side
1904 Oct. 1 "	11,522	Balance brought forward .. To Cheque on General Account ..	.. 55	£ s d 15 16 11 100 0 0	

Form 26 (continued).—

MANAGER'S DISBURSEMENTS CASH BOOK.

Cr. Side.

Date	Cheque No.	Particulars of Payment	Voucher No.	Special Items	Rebates and Return Premiums	Commission	Petty Cash	Printing and Stationery	Policy Stamps	Medical Fees	Travelling Expenses	Advertising	Total	Remarks
				General Ledger Folio	Agents' Ledger Folio	Agents' Ledger Folio	Petty Cash Book Folio	Amount	£ s d	£ s d	£ s d	£ s d	£ s d	
				Amount	Amount	Amount	Amount	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	

Rebates and Return Premiums.—

The subject of rebates and returns gives rise to special considerations, and, therefore, calls for slightly extended notice.

Rebates are allowed upon several grounds, and are chiefly caused by a risk becoming less hazardous than was anticipated at the time the policy was written. For example, an extra premium charged to cover residence abroad may become unnecessary owing to the insured coming back to this country earlier than was expected. A *pro rata* return of premium would in such a case generally be made, if asked for. Or a person insured under, say, a personal accident policy, at Class II. rates, may change his occupation, and follow a calling rated under Class I. He would then become entitled to a proportionate rebate of the premium paid, and so on. Again, where the policy relates to buildings or effects, the premises may be sold, the tenancy terminated, or the goods disposed of, and a balance of the premium paid to the office may be validly claimed by the insured, unless, of course, the policy is transferred to the successor.

These rebates and returns have the effect of reducing the amount of the premium income shown by the Registers and Journals, and they must, therefore, find their way to the relative Premium Accounts in the General Ledger—a very simple matter. But one point arises which sometimes leads to complications. It is as follows:—

The agent has received commission upon the full premium; and some offices make a point of asking for a refund of the amount apportionable in respect of any returns. Looking at the matter upon broad lines—the agent having completed his part of the business, the premium having been received by the office, the commission paid over, and the transaction closed—it would appear scarcely fair to ask the agent to refund part of

his remuneration on account of circumstances afterwards arising, and over which he has no control. And, moreover, it may be said that such a course has a distinctly irritating effect, so far as the agent is concerned; and it may be doubted if the small sum gained to the company makes it worth while, at any time, to raise the question. In addition, the practice referred to tends to introduce complications into the accounts. The only argument having much show of reason which it would appear possible to produce upon the other side, is that in the event of an increase in premium arising from a similar cause, the agent would naturally expect commission thereon, and would receive it. This, it must be admitted, is true; but, on the ground of expediency, it will probably be found the better plan to avoid the practice of asking for a refund of commission that has once been paid, after the acceptance by the office of the premium to which it relates. However, this course is by no means always adopted, and if a refund of commission is to be claimed, a debit entry therefor, proportionate to the amount of the rebate or return, must be made in the Agents' Ledger. Probably the making of a note of any items of this nature on the Premium Journals, for the purposes of posting, will be found the simplest way of dealing with the matter, although their inclusion in the Premium Journals at all would appear to be somewhat irregular. If this is done, a reference folio for the purpose of giving the number of the Journal page may with advantage be added to the proper column in the Manager's Disbursements Book, as this will go far to prevent the requisite entries being overlooked.

PETTY CASH BOOK.

This will follow the same general plan as the Manager's Disbursements Cash Book, and will be used in respect of small payments not exceeding, say, £1 or £2.

The Petty Cash Account may be replenished by cheques drawn upon either the General Account or the Manager's Disbursements Account; but the plan, once adopted, should be adhered to, indiscriminate drawing upon both accounts being inadvisable. If the Petty Cash Book is kept upon the "imprest" system,^e a continuous check upon its contents of not a little value is established.

NOTE ^e.—For the sake of those unacquainted with this term, it should be pointed out that under the "imprest" system the amount in the hands of the cashier can never exceed a certain fixed sum. Thus, if a limit of £50 be decided upon, the account will be opened with that amount, and each time a further cheque is required the entries in the Petty Cash Book will be examined, and a cheque drawn for the difference between the balance in hand and the limit of £50. The system has many advantages, and these are too apparent to need special comment here.

CHAPTER VII.

MISCELLANEOUS MATTERS.

THE ENDORSEMENT BOOK.—RE-INSURANCES AND GUARANTEES, &c., &c.

BEFORE passing on to the General Ledger and the closing of the accounts one or two other books must be dealt with. These, although occupying in the general system a less prominent position than those which have been already described, will be found to be of considerable importance, but they are, it is to be feared, apt to be sometimes overlooked when the system as a whole is being considered.

The Endorsement Book.—

Following the order which has been previously observed, the first to be approached is the Endorsement Book, which partakes of the nature of the Policy and New Business and Cancellation Registers. The necessity, as regards the accounts, for a book of this description arises as follows. The Registers, so far as we have dealt with them, contain an entry of each premium in force as at the date of issue of the relative policies; but, as a matter of fact, it will be found that this premium does not always hold good throughout the existence of the policy. Circumstances will constantly arise which necessitate an alteration in the rate. The hazard attaching to a particular risk may be increased, and an increased premium become payable in consequence, as in the case of a holder of a personal policy taking a journey to tropical countries. The hazard may be

decreased and a reduction in premium become necessary, as in the case of the insured ceasing to follow a dangerous occupation, and so on, as already mentioned under the heading of Rebates and Returns in the last chapter. All alterations such as these are given effect to by an endorsement upon the policy itself, and a verified copy of each endorsement is made in a book, or set of books, specially ruled, and kept for that purpose. In a company undertaking business in several departments a separate book will generally be employed in each.

The Endorsement Book has, however, other uses beyond that of preserving a copy of the wording endorsed upon the policy. It forms the basis from which the alterations are noted up in the Policy and Renewal Registers, and must contain folioing columns accordingly. It constitutes the record from which the entries of the increase or decrease in the respective premiums are collected for posting to the accounts in the Agents' Ledger and the General Ledger.

Form 27.—

ENDORSEMENT

Serial No. of Endorsement	Date	Policy No.	Branch or District Agency	Agent	Town	Name of Insured	Particulars of Endorsement	Alteration in Rate to date from
118	1904 Nov. 1	44	Head Office	W. Ross ..	Bickley ..	Jas. Rees ..	Endorsement No. 2. Increasing Pre- mium by £1 per annum	1/11/04

Sometimes the amount of the premium is not affected by the endorsement, as in the case of the transfer of a policy relating to effects from one name to another. Generally, however, endorsements result in either an increase or decrease in premium. The former is charged to the agent, and collected by him in the ordinary course; the latter is equivalent to a cancelment, and is, therefore, credited to the agent's account, the corresponding debit being obtained from the record of rebates and returns paid, as given in the Manager's Disbursements Book.

It is to be noted that, strictly speaking, an increase in premium is always in the nature of "new business," while a decrease may be either in the nature of "new" or "renewal" business.

Printed slips, containing the wording relating to well-defined innovations of a class frequently recurring, are usually kept in the office for affixing to policies, and each class of slip bears a

BOOK.

INCREASE. Amount to be Collected		DECREASE. Amount to be Allowed		How Premium Payable*	Original Premium	Revised Premium	Policy Register folio Interim or Renewal Register folio	Remarks
Folio Premium Journal or Agents' Ledger		New	Folio Cancel- ment Journal or Agents' Ledger					
	£ s d	£ s d		£ s d				
22	0 3 0	..	..	..	A.	£ s d 4 0 0	£ s d 5 0 0	16 76

*A. = Annually
H. = Half-yearly
Q. = Quarterly

distinguishing number. Thus the ordinary endorsement giving permission to visit tropical latitudes may be known as Endorsement No. 1; that relating to an increase in premium, in consequence, say, of the policy being continued in force beyond the usual age limit, as Endorsement No. 2, and so on. In these cases the entry in the body of the book will read simply "Endorsement No. 1," &c., and a considerable saving of time and space will be effected.

An outline of an Endorsement Book suitable for a single department is given in Form No. 27.

The premium entries relating to the endorsements are sometimes posted direct from the Endorsement Book to the Agents' and General Ledgers—to the latter, of course, in totals. Where the endorsements are all contained in one book, as may be the case in a very small company, or with an office transacting business of one description only, such a course does not seem open to any particular objection, except, perhaps, the liability of the entries, if few, to be overlooked. But, where there are several books in use, the entries should always be carried to account through the Premium and Cancellation Journals; and in any case, where these Journals exist, they should contain a note of all the items affecting the premiums, whether originating with the Endorsement Book or otherwise. If this course is not adopted, an inconsistency in the system is at once apparent, and complications will almost certainly be caused by items being from time to time lost sight of.

It must also not be forgotten that endorsements have a bearing upon the Over-riding Commission Accounts, and this will, in some instances, form an additional reason for carrying the items to account through the Premium Journals.

RE-INSURANCE AND GUARANTEE PREMIUMS.

Re-insurances and guarantees partake, if the expression may be used, of the inner nature of the business, or of what may be termed the science of insurance. So far, we have dealt with matters which are prominent in the printed accounts of most companies. The existence of re-insurances, and of their counterpart, guarantees, is not always so apparent. Nevertheless, it is safe to say that practically in the case of every office re-insurances exist. It is, however, in fire insurance that the system of re-insuring reaches the high-water mark of perfection, and the subject is, therefore, again referred to under that heading.

The question of rating is, no doubt, the most technical one connected with the business, but with this matter we have little to do, except to the extent that the accounts are intended to supply the data for the correction of existing premium rates or the deducing of new ones. In life assurance, where the majority of the contracts are intended to be of life-long duration, the question of rating became, of course, long ago a highly developed science. But this apart, the subject of re-insurance assumes considerable technical importance. Its effect upon the general system of accounts is, however, not very pronounced.

Re-Insurances.—

Every office, no matter of what financial strength, has a series of limits, beyond which it will not retain liability upon any one risk. The limits vary in the same office, according to the nature of the business, and in different companies with the position and importance of the company. It is the rule to retain a larger sum upon first-class or non-hazardous risks than upon hazardous, and of extra hazardous business an office will generally re-insure as much as possible. It is, however, customary for the guaranteeing office to stipulate that the company placing the

business shall retain an amount at least equal to the sum to be guaranteed.

The limits being fixed, as above mentioned, particular instructions are given to the principal officers and staff accordingly, and great care is exercised to see that these limits are not exceeded without express authority. This, as will be readily seen, is a matter of vital importance in a business of so special a nature as the acceptance of risks, and the strictest attention is necessarily paid to it.

But although an office has a fixed limit of, say, £2,000/ in respect of a total claim, or total loss, on any one risk of ordinary hazard, it by no means follows that it will not issue a policy for a face value of many times that amount. What actually happens is this. On receipt of a proposal for, say, £10,000, if the business is of a character with which the office can easily deal, it is accepted, and the surplus—*i.e.*, the difference between the *limit* and the amount to be shown on the policy—is insured by the company accepting the proposal, with other companies, at the ordinary rate, less a liberal "trade" allowance or discount. This giving off of surplus risks is what is known as re-insuring, and the insurances so effected are termed "re-insurances."

To the company accepting the surplus risk (or a proportion thereof) the transaction resolves itself into the issuing of what is known technically as a "guarantee"—*i.e.*, it issues to the office placing such surplus with it a guarantee that it will become liable, in the event of a claim arising, for the same proportion of the total payment made as the amount re-insured with it shall bear to the total amount of the policy. Re-insurances and guarantees are, therefore, terms which describe the same transactions as looked at from the differing points of view of the

NOTE f.—In large offices, the limit will frequently be fixed at a much higher sum.

offices interested. In the books of the individual offices, however, "guarantees," or, more correctly guarantee premiums, form receipts; "re-insurances" represent payments.

The whole subject of re-insurances and guarantees, and of the keeping of the accounts in connection therewith, is highly interesting, and of such wide scope that a book might very well be written upon it alone. A brief outline, however, is all that it is possible to give in this work, but such an outline is necessary.

GUARANTEE PREMIUMS.

The treatment of premiums generally in the books of an insurance company has already been so fully discussed that very little more by way of outline need be added under the above heading. A separate set of Registers and/or Journals throughout will, if the transactions assume anything more than very small proportions, usually be necessary, and a separate Ledger to contain the accounts with the respective companies will also be required. The Registers will be opened in accordance with the names of the companies from which business is received, and the periodical totals of the premiums will be recorded in the Guarantee Premiums Account (or Accounts, if kept departmentally) in the General Ledger. There is, of course, no question of over-riding commission.

With these few exceptions the treatment of guarantee premiums in the books of account will be on the same broad lines as have been already laid down for premiums generally, it being remembered that endorsements and cancellments are given effect to on receipt of advices from the office placing the business. As regards new business, a return of the guarantee policy for cancellation is sometimes made, but this does not, as a rule, appear to be insisted on.

Claims under Guarantees.—

The recording of these raises no new principle. Columns may be added to the Claims Cash Book to contain the entries relating to the various payments, or a separate Cash Book for "claims by guarantee" may be employed, and a further relative column may be added to the General Cash Book, where circumstances require it, it being advisable to keep the record of these claims quite distinct in the General Ledger.

Generally.—

Guarantee premiums are usually paid in account monthly or quarterly; but it is a somewhat general practice to pay the claims as and when they arise, or, which amounts to much the same thing, to draw cheques therefor at the board meeting next following the date upon which the final adjustment of such claims—where adjustment is necessary—is effected.

The accounts between companies as regards guarantee premiums are, and should be, kept quite distinct from all other matters, the entries provided for therein being those which relate to premiums and cancelments (including, of course, additions and returns), commission, and cash. Where re-insurances are placed with the same offices, accounts of these—separate from the Guarantee Accounts—should be kept and rendered, otherwise it will be extremely difficult to avoid complications.

RE-INSURANCE PREMIUMS.

These will require but brief general comment after what has preceded, as the treatment they necessitate is simply the reverse of that accorded to premiums received. But, seeing that a re-insurance premium paid by one company becomes a "guarantee" premium accepted by another, a few words of further explanation as to the office routine connected therewith will serve a double purpose.

General Procedure.—

In view of the fact that proposals for amounts in excess of the company's limit are constantly being submitted, it is obviously important that an office should know exactly how far it can go, with safety, in the matter of accepting such risks. Much, as has already been mentioned, depends upon the nature of the business offered, but, this notwithstanding, it is as well to leave unprovided for as few contingencies as possible. For this reason, and also frequently with the object of obtaining a reciprocation in the shape of similar business, treaties are sometimes entered into with other companies, by which they agree to accept from the office controlling the business an amount equal to its retention, or a fixed proportion of its retention, of risks showing a surplus. It is the rule to advise each treaty office daily of the particulars relating to all cases in respect of which it has been "placed on the risk," but the contract between offices will generally contain a clause to the effect that if the sending of an "advice" be inadvertently omitted, the treaty office will, nevertheless, become liable—automatically—provided certain conditions are complied with.

Where no treaties exist, or if a balance of surplus remains after the treaty offices have received their due proportions, companies must be approached until the whole of the surplus has been accounted for; and this is always carried out as quickly as possible, for obvious reasons.

The commission allowed by the guaranteeing offices is invariably at a higher rate than the ordinary agency commission—sometimes much higher—and is usually regarded as an allowance to cover commission and working expenses paid and incurred by the principal office in the procurement of the business.

A record of the proportions re-insured, of the premiums payable in respect thereof, and of all other necessary details, will

usually be added to the particulars in the Policy Registers (or, in fire business, to the particulars given in the bound policy drafts), the forms of which are generally extended by the addition of specially ruled columns to contain this information. The treatment of re-insurance premiums in the books of account will then follow the same broad lines as the ordinary premiums receivable and the guarantee premiums, but it must always be remembered that the effect upon the accounts is reversed—re-insurance premiums representing amounts payable; re-insurance claims represent, of course, amounts receivable.

It should not be forgotten that both endorsements and cancellments have a considerable bearing upon re-insurances, and due effect must be given to these matters in the re-insurance books, and a system of inter-folioing to and from the Policy Registers, &c., must be introduced.

It is customary for the company receiving the re-insurance premiums to issue from time to time statements showing the amounts falling due for renewal, which statements take the place of the ordinary Renewal Notice in direct business. The cases not renewed are struck out when the list is returned, but of necessity there are frequently renewals in abeyance, and these, if cancelled after the account has been made up, are taken credit for in the following account. The office accepting the re-insurance premiums, as a rule, renders the account, the principal office checking the same. But in this, as in all matters connected with re-insurances, considerable care is necessary, otherwise a case may be omitted, sometimes with disastrous results to the company seeking cover.

Claims under Re-Insurances.—

A record of the sums recoverable by way of re-insurance, together with the name of the company to be debited therewith, may, in many companies, with advantage be contained in the

Claims Cash Book, where the proportion existing between the gross loss, or claim, paid, and the amount to be reimbursed, can be checked at a glance.

The necessary columns are easily added, and should provide, amongst other things, for—

- (1) No. of Claim.
- (2) No. of Principal Policy.
- (3) Gross Amount of Claim.
- (4) Proportion recoverable.
- (5) No. of Re-insurance Policy.
- (6) Name of Company.
- (7) Ledger Folio.
- (8) Amount Recoverable.

If the record is not shown by the Claims Cash Book the full particulars are sometimes added in the Claims Register, or a separate book is used.

Claims under re-insurances are always proportionate—that is to say, the amount to be recovered bears the same ratio to the total amount of the claim paid as the sum re-insured bears to the total amount of the policy.

General Cash Book.—

Columns both debit and credit will be required to be added to the ruling of the General Cash Book, where guarantees and re-insurances are numerous, to contain a record of the cash totals received and paid in respect of premiums.

THE INVESTMENT ACCOUNTS.

These accounts are, of course, not peculiar to insurance offices. Many good systems of accounting in relation thereto exist. The matter is dealt with in a large number of the published works upon general bookkeeping and accountancy,

and it is not very technical in nature. Nevertheless, it will probably be advisable to give a short outline of the chief requirements in this direction, so far as an insurance company is concerned.

Young offices are not, as a rule, over-burdened with investments; but old-established companies are usually very well off in respect of funds, and a separate set of books will commonly be employed for the keeping of the Investment Accounts.

Where this set of books exists, the Investment Ledger should be specially ruled to show *Dr.* and *Cr.* accounts, in respect both of principal and of interest arising therefrom. Sufficient space should be left at the head of the pages to allow of ample particulars of the security, terms, &c., being entered; and in the columnar ruling of the interest section provision should be made for showing the income tax allowed.

One of the principal considerations in this system of sub-accounts is the provision of an easy method for recording when the periodical items in respect of interest become due. The best arrangement with which the author is acquainted is to keep a Register, ruled upon the same lines as the Premium Renewal Registers, containing particulars of the capital security, the folio of the Investment Ledger referring thereto, spaces (following the plan of the Premium Registers) for several years' entries relating to interest to be charged out for collection, and a column for a note of the folios of the Interest Accounts, to which the last-mentioned items are debited. These items may be posted direct, and there is no necessity to employ a Journal.

In opening the Ledger Accounts due regard should be had to the manner in which the investments are grouped in the *pro formâ* accounts attached to the Life Assurance Companies Act of 1870, which matter is referred to in the following chapter.

In life assurance offices where loans upon policies are numerous, a separate Ledger to record the entries relating to the sums advanced is commonly kept; and a Register upon the basis given above is necessary. In cases where the amounts are to be collected through agents, it will generally be advisable to carry the items to account through the Premium Journal. (See Chapter XI.)

THE SHARE BOOKS.

The Share Books—where these exist—of an insurance office are not in any sense special or peculiar to the business, and any detailed consideration of these has, therefore, been omitted.

CHAPTER VIII.

THE GENERAL LEDGER AND PUBLISHED ACCOUNTS.

PART I. THE GENERAL LEDGER.

If the monthly or quarterly totals of the Premium, and Cancellation, Journals (including, of course, the items from the Endorsement Books) are carried to the General Ledger direct, the result will be to show the gross premiums receivable during the financial year; and it is always the premiums *receivable* which appear in the published accounts, the amounts outstanding being separately shown as a Balance Sheet item, generally under the heading of "Agents' Balances and Outstanding Premiums," or "Premiums in course of Collection." The General Ledger, however, will not show the amount outstanding, and consequently it will not be possible to make up the final figures without bringing into account the balances on various subsidiary books.

To obviate the necessity for this, and in order that the entries in the General Ledger may form a check upon the accuracy of the subsidiary books, the following plan is sometimes adopted:—

(1) The periodical premium totals are carried to account through the General Journal, and are both debited and

credited to accounts in the General Ledger. The account to which premiums are debited would be known as "Premiums in course of Collection," or other similar title, one account only being necessary, so far as the debits are concerned.

The accounts to which premiums are credited would, where business of one description only is carried on, be called simply Premiums—New, Renewal, or otherwise, as the case may be; but if business is transacted in more than one department, separate groups of accounts would be opened for each department. At the end of the financial period the totals will be transferred to a "Total Premiums" Account. A record of the amount of the premiums receivable under each heading and each department will thus be clearly preserved, while the "total premiums" will (after cancellations have been dealt with *vice versa*) agree with the published figures. (See note.^g)

(2) The periodical totals of the cash and deductions relating to premiums, as shown in the Premium Cash Books, are carried to the credit of "Premiums in course of Collection," and the balance upon this account at the end of the year will thus, if the books have been accurately kept, and after the necessary adjustments have been made, represent the premiums, renewal receipts, and policies in the hands of the agents and of the Branch Offices, and the receipts and policies retained by the Head Office cashier.

Under this method a Cash Account is frequently kept in the General Ledger—of course, in totals.

NOTE g.—It has been previously pointed out that companies undertaking business in any two or more of the principal divisions—Fire, Life, and Accident—will, if the transactions are upon at all a large scale, usually employ a separate set of books, for each division, throughout. This course is generally necessary when life assurance is one of the divisions, as, under the Life Assurance Companies Acts, the accounts relating to this department, both as regards receipts and funds, must now, in most cases, be kept quite distinct.

The balance shown upon the "Premiums in course of Collection" Account should be supported by, and verified with, a list of the balances outstanding upon the Agents', &c., Ledgers; and if any difficulty is experienced in arriving at an agreement, it is recommended that the difference be first looked for in connection with rebates and "return" and "additional" premiums—*i.e.*, in connection with the Endorsement Book, as probably the majority of errors in balancing originate here.

The localisation of errors is sometimes further provided for by dividing the items, as regards premiums, in the Journals, &c., under the following headings, using either separate columns (see Form No. 28) or separate books.

- (1) Head Office.
- (2) Branches.
- (3) Agency.

Separate Premium Ledgers—Head Office, Branches, and Agents'—would be kept following this method of division, and, of course, corresponding Premium Accounts in the General Ledger.

Each Ledger may thus be balanced independently of the others. This innovation is, however, a simple matter of arrangement and general accountancy, and does not call for further treatment here.

Re-Insurance and Guarantee Premiums.—

The premiums relating to re-insurances and guarantees will be kept separately from the ordinary premiums until the final balancing, so that a clear record may be preserved.

Claims.—

The record of these will be kept under departments until the final balancing, but a division between claims arising in connection with "new business" and those relating to renewals, &c., is,

Form 28.—
EXTENDED COLUMNAR RULING OF PREMIUM JOURNAL FOR FACILITATING SECTIONAL BALANCING.

[illegible]

as has been previously mentioned, in most cases not necessary, nor customary.

Separate accounts should be opened for claims paid in respect of guarantees issued, and also for amounts recoverable under re-insurances effected.

Other Accounts.—

Beyond what is mentioned under the head of "Reserves," in Part II. of this chapter, these do not call for special comment.

MONTHLY SUMMARIES BOOK.

A digression may, it is hoped advantageously, here be made for the purpose of describing briefly a very useful book which is kept in some offices—useful, perhaps, more especially to young companies, which naturally, in such a business, have to “feel their way” very carefully for some years following establishment. This book is variously known as the Manager’s Report Book, the Monthly (or Quarterly) Summaries Book, &c. The question as to whether it is to be made up monthly or quarterly is determined by whether the renewals are sent out at intervals of the former or the latter duration.

An outline of the ruling, which is capable of considerable extension, is given in Form No. 29.

A certain number of estimates become necessary, in order that the results shown may be approximately correct; as, for instance, in respect of claims in course of settlement, for commissions on agents' balances, and on "Guarantee" and "Re-insurance" Accounts, and for sundry items relating to working expenses and unpaid. But it is often astonishing with what accuracy these interim figures may be prepared after a little practice, and without an undue expenditure of time.

Form 29.—
ACCOUNTANT'S (OR MANAGER'S) MONTHLY SUMMARIES BOOK.

[illegible]

STATEMENT OF LIABILITIES AND ASSETS.

The Companies Act, 1862, provides, in Section 44, as follows:—

"Every limited banking company and every *insurance company* and deposit, provident, or benefit society under this Act shall, before it commences business, and also on the first Monday in February and the first Monday in August in every year during which it carries on business, make a statement in the form marked D in the First Schedule hereto, or as near thereto as circumstances will admit, and a copy of such statement shall be put up in a conspicuous place in the registered office of the company, and in every branch office or place where the business is carried on, and if default is made in compliance with the provisions of this section the company shall be liable to a penalty," &c.

"Every member and every creditor of any company mentioned in this section shall be entitled to a copy of the above-mentioned statement on payment of a sum not exceeding sixpence."

For convenience of reference this form is given here. (Form No. 30.)

Form D.

"THE COMPANIES ACTS, 1862-1900."

Form of Statement pursuant to Section 44, Companies Act, 1862.

Name of
Company or
Association.

THE _____

The Capital of the Company is _____ Pounds,

divided into _____

Shares of _____ each.

The number of Shares issued is _____

Calls to the amount of _____

per Share have been made, under which the sum of _____

has been received.

January or
July.

The Liabilities of the Company on the First day
of _____ were _____

Debts owing to sundry persons by the Company

On Judgment £ _____

On Speciality £ _____

On Notes or Bills £ _____

On Simple Contracts £ _____

On Estimated Liabilities £ _____

The Assets of the Company on that day were—
Government Securities, viz. :

_____ } £ _____
_____ }

Bills of Exchange and Promissory Notes £ _____

Cash at Bankers £ _____

Other Securities £ _____

Dated the _____ day of _____ 190__

(If the Company has no Capital divided into Shares, the portion of the
Statement relating to Capital and Shares must be omitted.)

PART II.

THE RESERVES.

THE subject of the reserves which it is necessary to make in the published accounts is, from the point of view of the accountant and the auditor, the most important, and the most technical, one with which we have to deal in this volume. It is, moreover, the most intricate.

Premium Reserves.—

The business of insurance differs from almost every other business in the following important principle, which it is necessary to bear constantly in mind. In most businesses payment is made by the customer after specified work has been completed or goods delivered. In insurance the opposite is the case, for here payment is always made in advance. Consequently an insurance office is always under obligations to carry out contracts in respect of which it has already received the monetary consideration.

The premiums receivable by insurance companies as a whole fall under two principal divisions:—

(1) Those in respect of permanent contracts, renewable at the option of the policy-holder, and intended to be either:

- (a) Of life-long duration; or,
- (b) Very nearly so;

and the rates of premium relating to which are calculated accordingly, each premium—unless payment is made in one sum—being of the nature of an instalment.

The chief example of sub-group (a) in this division is, of course, ordinary life assurance policies; and, as illustrative of sub-group (b), long term sickness policies may be instanced. Endowment assurance policies belong to both sub-groups.

(2) Annual contracts, renewable at the option of the company—*i.e.*, the office reserves the right to decline to renew—and which is the usual form of policies other than life, and is common in such departments of the business as Fire, Accident, Burglary, Plate Glass, Fidelity Guarantee, &c.

In addition to these two principal divisions, one or two irregular groups (but, so far as their treatment in the accounts is concerned, belonging to Division 2) must be mentioned for the purposes of this chapter as follows:—

(1) Short term policies partly unexpired at the close of the financial year.

(2) Policies, other than life, granted for a term of years; as, for instance, seven, and paid for by a (reduced) lump sum at the time they are taken out.

The primary difference between the two principal divisions in arriving at the amount which it is necessary to reserve against the unexpired portion of the risk is that in Group 1 the question of compound interest is brought in, but from Group 2 it is eliminated. But this is not the only difference, for the business of life assurance has given rise to a highly-developed science, and the amount to be reserved in this department is now capable of being calculated—by means of the valuable data which has been collected over a wide area, and during the course of many years—with the utmost nicety.

But in general insurance business the reserves are arrived at either upon the basis of the experience of the particular office interested, or upon a rough estimate of the general experience in the class of business under consideration. This, however, seeing

that the policies are not "permanent" contracts, is probably sufficient to meet the case.

The amount of the reserves required under permanent contracts is ascertained by a periodical actuarial valuation; and, involving as this does applications of the theory of probabilities and that of compound interest, it is outside the province of the accountant and auditor, neither of whom are expected to undertake the duties of an actuary, nor, it is assumed, are they at all desirous of doing so.

The following remarks will, therefore, have reference only to the second of the principal divisions mentioned above—viz., to Annual Contracts, including, of course, such irregular sub-groups as call for the same general method of treatment.

Seeing that, as has already been emphasised, payment in insurance business is made by the customer in advance, the premium for twelve months' insurance under an annual contract being collected at the *commencement* of the period, and the office having to "run off" the risk without receiving any further consideration therefor, it follows that at the end of any year, or, for that matter, at any given date (eliminating for the time being the questions of "odd time," "short term," and "single payment" premiums), the following will be the position. Take, for example, the 31st December as a date, and let the policies fall due for renewal at the anniversary of the date of issue, and not at the anniversary of the quarter-day next following, then—

All policies issued during December, and also all policies renewed during that month, will at the end of the year have unexpired, 11 months odd,

Policies issued or renewed during November will have unexpired 10 months odd,

During October, 9 months odd,
and so on.

In respect of these the company will have, in most cases, received, and in all cases taken credit in its accounts for, the premiums, and will be liable for all claims arising under each policy until the expiry of the full twelve months covered by the premium. Hence a reserve becomes necessary in the accounts, for the reason that a considerable portion of the premiums shown therein is unearned.

Two methods of setting out the reserves in the published accounts are in vogue:—

(1) To show a General Reserve Fund, which is maintained at as high a figure as possible, and added to from time to time, often equalling a full year's net premium income, and in some old-established and wealthy companies even more.

(2) To show a specific reserve of a certain fixed proportion of the premiums.

The first method is generally adopted where there can be no question as to the sufficiency of the reserve, and is an easy way of dealing with the matter. But all companies are not so favourably situated as to be able to point to more than ample provision.

The second method is usually adopted in young companies, in which cases it is frequently difficult at first to show anything more than the bare reserve absolutely necessary. Sometimes it is impossible to show even this; but, of course, the shareholders' capital is available in case of need as additional security for the policy-holders.

The possession of wealth facilitates the conduct of business, and the case of the affluent companies first alluded to may be dismissed from further consideration; but, as regards their less fortunate competitors, a question of great importance arises—viz., What constitutes a sufficient reserve? This question has a

bearing upon several matters; for instance, the payment of dividends, the declaration of bonuses out of profits, &c.

Amongst insurance offices generally (other than life offices) there has for long been recognised a description of "rule by common consent" that the *minimum* necessary is $33\frac{1}{3}$ per cent. of the net premium income—i.e., the premium income after deduction of the sum paid away for re-insurance protection.

Mr. T. E. Young, ex-President of the Institute of Actuaries, &c., in his recent work entitled "Insurance,"ⁱ and published since the present volume was commenced, has the following interesting remarks upon the subject in his chapter upon Fire Insurance, and which are the more valuable for the reason that they contain a record of the actual experience of one office in regard to quarterly fluctuations in the volume of business transacted.

"In the practical conduct of fire insurance no information requires to be furnished beyond an explanation of the mode of forming the reserve which appertains to the unexpired risk at the close of each year. We will assume, for convenience, that the revenue consists of annual insurances, and that the premiums are distributed over the year in approximately uniform proportions. On this assumption, the total income may be supposed to become due on the 24th of June, and since the premiums then paid cover one year's insurance, there remains on the 31st of December half a year's risk unexpired, for which a proportionate part of the premiums received, after deduction of expenses, should be retained in hand. Assuming, further, that the commission and expenses amount to $33\frac{1}{3}$ per cent. of the premium revenue, the balance of premiums remaining is $66\frac{2}{3}$ per cent., so that one half of this balance, or $33\frac{1}{3}$ per cent. of the entire premium income, would constitute the required reserve, which would accurately express the continued risk (if the assumed ratio of expenses be correct) on condition that the business comprised only annual policies renewable in equal proportions at the term dates, and if these terms were divided evenly. Presumably, these considerations formed the basis upon which the provision for the

NOTE i.—"Insurance," a practical exposition for the student and business man. By T. E. Young, B.A., F.R.A.S. (First Edition.)

unexpired risk was usually erected. But examine the figures on the basis of the actual term days at which premiums are payable in England—namely, the 25th March, the 24th of June, the 29th of September, and the 24th of December:—

On Policies Renewable at	The Number of Days Unexpired at the 31st of December are	Being Fractions of a Year of
Lady-Day	83	'2274
Midsummer	174	'4767
Michaelmas	271	'7425
Christmas	358	'9808
	886	2'4274

"The average unexpired risk accordingly embraces $221\frac{1}{2}$ days, or '6068 of a year.

"On the assumption, then, of an even distribution of the business over the several actual terms, the rate of reserve on annual policies would be 60·68 per cent., if calculated on the premiums, less the assumed $33\frac{1}{3}$ per cent. for expenses, or 40·45 per cent. . . . of the full annual premium revenue.

"But, in practice, the business is not equally apportioned between the different terms, and the Christmas term is considerably heavier than any of the other three. In one company the proportion of business, calculated upon a period of years, amounted to 23 per cent. at Lady Day, 22 per cent. at Midsummer, 23 per cent. at Michaelmas, and 32 per cent. at Christmas; and, adopting these proportions, the reserve for unexpired risks on the 31st of December would be 42·79 per cent. if assessed upon the full actual premiums.

"A different proportionate reserve would be produced if long term and short term policies were included.

"The preceding statement is restricted to risks upon property in England."

This contribution to the scanty literature upon the subject, coming from an author of Mr. Young's standing and experience, is particularly welcome.

It will be seen that, *on the basis put forward*, and adopting the experience of the particular office referred to, the conclusion Mr. Young arrives at is that a reserve of 42.79 per cent., say, 43 per cent. of the premium income, is necessary.

But it must not be forgotten that, amongst other things, this conclusion is founded upon the assumption "that the revenue consists of annual insurances."

As a matter of fact, the basis employed in the above extract does not fully coincide with the actual position of affairs in companies in active existence, nor, clearly, is it intended to be considered as doing so.

To begin with, if an office issues its renewals at the quarter-days, it will charge for "odd time" on all its first premiums, with the exception that policies issued immediately after quarter-day will be made renewable at the anniversary of the quarter-day preceding acceptance, and more particularly is this the case as between the 25th December and the end of the year. Consequently the whole of the receipts in respect of "odd time" will have been fully earned, and no reserve in respect of these will be necessary.

Moreover, under any system, many of the "short term" policies will have expired, and those in force will require a smaller proportionate reserve than would be the case if they were annual contracts, for "short term" policies bear by comparison a higher premium.

Seven years' (or single payment) policies should always be separately dealt with, as explained later on, but they will usually be so few that their influence will scarcely be felt.

Again, some fire insurance companies—although probably a decreasing number—leave out of account in making up the year's figures the renewals falling due at the closing Christmas quarter. Thus, for instance, by this plan the year's figures for, say, 1903, would be made up as follows:—Renewals due at Christmas 1902, and at Lady Day, Midsummer, and Michaelmas 1903, together with the premiums chargeable in respect of all new policies issued between 1st January and 31st December 1903.

The determining factor as to following this course seems to be the mode in which the first accounts are prepared, as obviously it is impossible to alter a system once adopted without giving rise to the necessity for numerous explanations and adjustments, always disturbing and often inadvisable.

The reason for leaving out of account the last quarter's renewals is that it very considerably lessens the amounts to be shown as agents' balances and outstanding premiums, and in this way improves the appearance of the published accounts.

But it is at once apparent that this method greatly reduces, in an established company, the amount which it is *necessary* to reserve in respect of unexpired risks.

In dealing, however, with the business as a whole, another consideration arises. The foregoing remarks refer to companies issuing policies renewable at the quarter-days—and these the English quarter-days—but offices collecting their renewals upon the anniversary of the commencement of the risk will necessarily require a smaller proportionate reserve than that shown in the extract quoted above (which, it must be remembered, has reference to fire business only), although, of course, the larger the reserve the better. For under the quarter-day system, as first discussed, no policies can have more than nine months expired at the end of the year, and one quarter's policies (and

that the heaviest quarter) will have only a few days expired; but under the other (which for convenience may be called the "monthly") system some of the policies would have but one day to run, and even of those issued in the last quarter only a small proportion could have so many days unexpired as would be the case under the quarterly system.

Hence the adoption of a minimum reserve of one-third of the premium income, *for the purposes of a general rule*, is probably not so far removed from what it should be as at first sight might appear.

If the entire question is carefully weighed, however, the advantages of dividing the premium figures in the system of accounts in the way recommended in the earlier chapters of this book become very apparent. For, by this means, "short term" premiums may be specially dealt with when the reserve is being calculated, payments in respect of "odd time" may be eliminated, and a truer basis of calculation arrived at.

It should be observed that three factors exercise a determining influence upon the calculation of the reserve:—

- (1) The ratio allowed for in respect of claims, when the general premium rates are being fixed, which must be compared from time to time with the company's ascertained experience.
- (2) The periodical fluctuations in the amount of business completed.
- (3) The number of days unexpired in respect of the insurances in force, the premiums on which have been carried into account;

and if these matters show no variation as between the different departments of the business, it follows that what constitutes a proper reserve in, say, Fire Insurance, will also hold good for

Accident, Burglary, and other departments. How far this is so in fact is a somewhat subtle question; for, to deal with one point only, while there is no doubt that the winter months yield the largest revenue in Fire business, yet different departments have differing harvest seasons. Thus Burglary Insurance is rampant during the summer holiday months; while Employers' Liability business, in consequence of the Workmen's Compensation Act, 1897, having come into force on the 1st July 1898, is particularly brisk during that month and the months immediately following.

The reserves are, and should be, made by the management, and it is not suggested that the auditor is expected to undertake responsibility in relation thereto, beyond seeing that the accounts clearly disclose (1) the necessity for a reserve, and (2) the amount of the reserve provided; but it is certainly advisable that he should be able to form an intelligent opinion of the sum required, and more particularly in cases where the payment of a dividend is contemplated.

A due appreciation of the many technical points bearing upon this subject can only be attained after years of close acquaintance with the business, and it must be assumed that the management is fully conversant with all such matters.

Where a company transacts business under a number of departments, it is advisable that the reserve in respect of each department be made before transfer of the departmental premiums to the Total Premiums Account, as experience may show that some departments require a higher rate of reserve than others; and this has, in fact, recently proved to be the case in many companies, with regard to employers' liability business, owing to inadequate rates of premium having been charged.

One or two other matters remain to be briefly dealt with. The position of half-yearly and quarterly premiums is some-

what peculiar; but as these, as a rule, will not be numerous, it does not appear that special treatment of them is necessary, for the following amongst other reasons:—

(1) Although a proportion only of the year's premium has been received in many cases, and the reserve—made upon the basis of one-third of the premiums received—is consequently reduced, yet the number of days unexpired, and covered by the premiums received, is correspondingly reduced; and,

(2) Although the full amount of the policy is at risk throughout, yet in the event of a claim arising the balance of the full year's premium becomes immediately payable, and is deducted by the company.

If these cases become very numerous special consideration might be necessary, and the question would then be, How far the full amount of the policy being at risk throughout, and the premium being regarded as an instalment, affects the amount it is necessary to reserve, remembering the provision for deducting premiums (or instalments) from claims?

Another point which must be mentioned is as follows. Some fire offices issue a seven years' policy in return for an immediate payment of six times the amount of the annual premium, the seventh premium being regarded as a bonus. In these cases the annual reserve must be arrived at on the basis of one-seventh of the amount received (*i.e.*, $\frac{1}{7} \times 6 \times$ the ordinary annual premium), and a further and special reserve of one-seventh for each year paid for beyond the current policy year added. It is not usual to bring in the question of interest in making the reserve in respect of these cases.

The consideration of the adequacy of the premium reserves naturally raises the question as to how far the premium rates—in business other than life assurance—are arrived at upon a scientific basis. Years of personal experience afford, there is no

doubt, a good guide as to what is a proper charge to cover certain classes of risk and leave a fair margin of profit. And it is in the nature of a business of so wide and varied a scope that the necessity for constant adjustment and revision of premium rates should exist. But this very necessity would seem to suggest that a stricter system of account-keeping and recording results than is at present in force in many offices might be beneficially adopted. And the author is inclined to the opinion that the importance of a properly organised and skilfully controlled Accountant's Department, and of the advantages derivable therefrom, has in many companies been overlooked.

Reserve for Cancellations.—

Strictly speaking, the consideration of this subject should precede that of the "premium reserves." The latter have, however, been dealt with first on account of their greater importance. The necessity for a reserve in respect of (probable) cancellations arises as follows. At the close of the year a large number of premiums will be outstanding on Agency, Head Office, and Branch Accounts, and a number of the policies represented by these premiums will be allowed to lapse. In life assurance this number will be small, and special considerations may arise; but in other departments of the business it will be fairly large, and, therefore, it becomes necessary to make a reserve—calculated upon the basis of past experience—in respect thereof. The effect of this reserve is to reduce the amount of the premium income for the year, on the one hand, and the amount shown in respect of agents' balances and outstanding premiums on the other. And it follows that, as a rule, the reserve in respect of unexpired risks should be calculated after the reserve for cancellations has been given effect to.

Guarantee and Re-Insurance Premiums.—

The reserve in respect of guarantee premiums is made upon the general lines laid down above.

With regard to re-insurances, it is not usual, nor correct, to take credit for a proportion of the premiums paid in advance, for the reason that the foregoing general premium reserve is calculated upon the net premiums—*i.e.* (as has already been pointed out), upon the premiums after re-insurances have been deducted—but if credit is to be taken for the amount paid in advance for re-insurances, then the general reserve should be made upon the gross premiums.

Reserve for Commission.—

In addition to being subject to unascertained cancellations, agents' balances will, when they are collected by the company, be received less commission. They should, therefore, appear in the accounts less the approximate amount of this charge, and the Commission Account should be debited accordingly.

But here it must be pointed out that some offices assume a fixed rate of commission throughout, and in the books of account treat all allowances beyond that rate as a payment to the agent on account of expenses connected with the conduct of the business; in other words, as "working expenses." To make this clearer. Let 15 per cent. be the normal rate (and also the rate assumed to be payable throughout), some agents transacting a large business being allowed to deduct 17½ per cent. This deduction of 17½ per cent. will be carried to account as follows:—15 per cent. will be taken to Commission Account, and 2½ per cent. will be charged up as "allowance for expenses."

Although, perhaps, hardly to be recommended, there does not, on general grounds, seem to be any very great objection to this way of looking at the position—which to a large extent resolves itself into a matter of the wording of the agent's letter of appointment—always provided the point is not lost sight of when the reserve for commission is being made; for the deduction—rightly or wrongly regarded as being in part an allowance

for expenses—is, nevertheless, a fixed charge upon the resulting income, and as such must be provided for in the reserves. In life assurance companies, however, where the *pro forma* account given in the Act of Parliament specially provides for the amount of commission payable being shown as a separate item, and in "tariff" fire insurance offices, in which cases the rate of commission is regulated by the Fire Offices Committee, other considerations arise.

A reserve for commission must also be made upon amounts payable and to be received in respect of re-insurances and guarantee premium balances, and the rate in both instances will be a somewhat heavy one.

With regard to over-riding commission, if the accounts in respect of this charge are kept in detail in the manner previously described, the Over-riding Commission Ledger will show the amount outstanding. If the accounts are kept upon the "Branch" system, a reserve will be necessary.

Claims.—

Particular care should be taken to see that all claims admitted (and also all claims advised which *ought* to have been omitted) are included in the accounts. The following points have also to be borne in mind:—

- (1) Claims in respect of guarantee policies must be similarly treated.
- (2) The company is entitled to take credit for amounts recoverable under re-insurances.

Claims in respect of weekly compensation, where the insured is still disabled, will often require very careful estimating; as will any claims in respect of which litigation, or arbitration, is pending, and in regard to such cases the company's contingent liability for costs should not be over-looked.

Bad Debts.—

In insurance business a reserve for "bad debts" is, perhaps, not so necessary as it is in many other businesses. For the premiums collected by the agents representing moneys received "for and on behalf of" the company drastic measures to enforce payment may be taken where necessary, and which in most cases will prove successful. Debts which prove to be irrecoverable should be written off at once, and sufficient evidence of the necessity for such a step preserved.

It should not, however, be forgotten that, strictly speaking, commission should first be deducted from the amount of the debt, the balance remaining thereafter being transferred to Bad Debt Account.

A reserve in respect of doubtful debts will, however, frequently be required.

General Reserves.—

Reserves on account of interest, dividends, rents, &c., accrued—receivable and payable—do not call for special mention, nor do those relating to the ordinary working expenses.

One other matter may be conveniently mentioned here. The margin of profit in insurance business is subject to considerable fluctuations from year to year, and in many departments nothing less than an average extended over several years is of any practical value in arriving at the rate of dividend which may be consistently declared.

Recognising this fact, some companies establish a Dividend Equalisation Fund, by which means a portion of the profits made in good years is carried forward for the purpose of adding to those of poor years, and a uniform rate of dividend is maintained. The advantages of such a course are obvious.

PART III.**THE PUBLISHED ACCOUNTS.**

THE schedules attached to the Life Assurance Companies Act, 1870, prescribe the form of Revenue Account, Profit and Loss Account, and Balance Sheet to be adopted by companies carrying on the business of life assurance, either—

- (1) Exclusively; or,
- (2) In conjunction with fire, marine, or other insurance business.

These schedules are printed on pages 157 to 161, and are sufficiently explicit to require little comment. They are, however, included in the present chapter, for the reason that the general form thus given is commonly followed by insurance companies, irrespective of the particular department, or departments, of business undertaken; although, of course, offices not transacting life assurance are under no obligation to adopt this or any other specific form of account.

Revenue Account.—

The first point which naturally strikes one is that the *pro forma* Revenue Accounts are arranged in the reverse way to that which is ordinarily accepted as the correct one. That is to say, the items representing income appear upon the left-hand, or debit, side of the account, while those relating to outgo are set out upon the right-hand, or credit, side of the account. No useful purpose would be served by discussing here the arguments for and against such an arrangement, as the form as it stands is law for those companies to which it applies, and, as such, must be followed. But it is significant that recently several offices which do not issue life assurance policies have in their Revenue Accounts reversed the order given above.

The foregoing remarks also apply to the Profit and Loss Account.

It will be observed from Foot-note 2 to the first schedule that premiums and claims are to be entered net—that is “after deduction of the amounts paid and received in respect of re-assurances.” This practice is common in companies other than those conducting life assurance, although some offices show the gross amount of premiums receivable, the sum paid in respect of re-insurances being given as a contra upon the other side of the account. The principal object in view in pursuing the latter course appears to be to make the premium income appear as imposing as possible, and consequently the larger and stronger the company the more likely is it to follow, in this respect, the form given in the Act. The gross amount of the claims is, however, not so often disclosed, there being little or nothing to be gained by making these look larger than is absolutely necessary. From an accountant's point of view, however, it should seem that either all the figures should be gross or all net.

Balance Sheet.—

It will be seen that in the Balance Sheet those assets which consist of mortgages and “investments” are sub-divided under specified headings. Consequently in opening the Ledger Accounts—where it is obligatory or intended to follow this wording—due provision should be made, to which matter there is a reference under the heading of Investment Accounts.

Two other items on this side of the Balance Sheet call for comment in passing, “Agents' Balances” and “Outstanding Premiums.” As a strict definition, agents' balances would represent the sums of money actually in the hands of the agents, less commission thereon—the premiums in course of collection, whether by Agents, Branches, or Head Office, being rightly to be

called outstanding premiums. This construction does not, however, appear to be usually placed upon the wording quoted, and the phrase “agents' balances” is broadly taken to mean all policies, receipts, &c., standing at the debit of the agents upon the closing of the books; and “outstanding premiums” is read as signifying policies and receipts in the hands of the Head Office cashier. The amounts outstanding upon Branch Accounts are frequently, although not always, included under the heading of Agents' Balances.

Several companies now add to the term “agents' balances” the words “after providing for commission and cancellments,” or others to the same effect. This is more often the case with offices which do not transact life assurance business, as in that department cancellations are very much fewer than in the other divisions of the business; and, of course, some of the “mutual” life offices pay no commission. A reserve for cancellations is also necessary as regards premiums outstanding upon Head Office Account.

Amounts outstanding in respect of guarantee premiums are generally shown as “Balances due from other companies,” or under some similar heading.

Upon the “liabilities” side of the Balance Sheet it will be noticed that “departmental funds” are given, and not specific reserves in respect of the unearned portion of the premiums received as discussed earlier in this chapter. But it must be remembered that in life assurance offices the question of the reserve necessary is dealt with at the actuarial valuation—usually once in five years—and that offices undertaking other branches of the business in conjunction with life assurance are, to a large extent, old-established and powerful institutions possessing reserves of more than ample proportions.

In closing this part of the subject the reader who desires to follow the matter further is strongly recommended to obtain copies of the printed accounts (which can usually be had for the asking, immediately after the annual meeting) of one or two representative companies in each of the principal divisions of the business, and to study these carefully, in conjunction with the points discussed in this volume.

Such a course will bring him in close contact with numerous phases of the business, and the practical acquaintance with actual figures so acquired will be found a most valuable supplement to the study of general rules.

FIRST SCHEDULE.

REVENUE ACCOUNT of the.....'or the year ending

	£
<div>r8 . Date</div>	
Amount of funds at the beginning of the year Premiums Consideration for Annuities granted Interest and Dividends Other Receipts (accounts to be specified)	
£ s d	
<div>r8 . Date</div>	
Claims under Policies (after deduction of sums re-assured) <div>Surrenders</div> <div>Annuities</div> <div>Commission</div> <div>Premium Management Dividends and Bonuses to Shareholders (if any)</div> <div>Other payments (accounts to be specified).. .. .</div> <div>Amount of funds at the end of the year, as per second schedule</div>	
£ s d	
<div>r8 . Date</div>	

NOTE 1.—Companies having separate account for Annuities to return the particulars of their annuity business in a separate statement.

NOTE 1.—Companies having separate account for Annuities to return the particulars of their annuity business in a separate statement.
NOTE 2.—Items in this and in the accounts in the Third and Fifth Schedules should be the net amounts after deduction of the amounts paid and received in respect of re-assurances.

SECOND SCHEDULE.

BALANCE SHEET of the.....on the.....18 .

Liabilities		£	s	d
Shareholders' Capital paid up (if				
Assurance Fund	£			
Annuity Fund (if any)	£			
Other Funds, if any, to be specified..	£			
Total Funds as per first schedule ..	£			
Claims admitted, but not paid*	£			
Other amounts owing by the company* (accounts to be specified)	£			
Assets				
Mortgages on property within the United Kingdom				
do. do. out of the United Kingdom				
Loans on the Company's Policies				
Investments—				
In British Government Securities				
Indian and Colonial Government Securities ..				
Foreign Government Securities				
Railway and other Debentures and Debenture				
Stocks				
Do. Shares (preference and ordinary) ..				
House Property				
Other Investments (to be specified)				
Loans upon Personal Security				
Agents' balances				
Outstanding Premiums				
Do. Interest				
Cash				
On deposit				
In hand and on Current Account	£			
Other Assets (to be specified)	£			

* NOTE.—These items are included in the corresponding items in the First Schedule.

THIRD SCHEDULE.

REVENUE ACCOUNTS of the.....for the year ending

No. 1. LIFE ASSURANCE ACCOUNT.

(Date)	Amount of Life Assurance Fund at the beginning of the year	£	s	d
	Premiums after deduction of re-assurance			
	Consideration for Annuities granted			
	Interest and Dividends			
	Other Receipts (accounts to be specified) ..			
	£			
(Date)	Claims under Life Policies (after deduction of sums re-assured)	£	s	d
	Surrenders			
	Annuities			
	Commission			
	Other Payments (accounts to be specified) ..			
	Amount of Life Assurance Fund at the end of the year as per fourth schedule ..	£		

NOTE.—Companies having separate accounts for Annuities to return the particulars of their annuity business in a separate statement.

NO. 2. FIRE ACCOUNT.

(Date)	Amount of Fire Insurance Fund at the beginning of the year	£ s d	(Date)	Losses by Fire after deduction of re-assurances	£ s d
	Premiums received, after deduction of			Expenses of Management	
	Other Receipts to be specified			Commission	
		£		Other Payments to be specified	
				Amount of Fire Insurance Fund at the end of the year as per fourth schedule ..	£

NOTE.—When Marine or any other branch of business is carried on, the Income and Expenditure thereof to be in like manner stated in a separate account.

NO. 3. PROFIT AND LOSS ACCOUNT.

(Date)	Balance of last year's account	£ s d	(Date)	Dividends and Bonuses to Shareholders ..	£ s d
	Interest and Dividends not carried to			Expenses not charged to other accounts ..	
	Profit realised (accounts to be specified) ..			Loss realised (accounts to be specified) ..	
	Other Receipts	£		Other Payments	
				Balance as per fourth schedule	£

NOTE.—This account is not required if the items have been incorporated in the other accounts of this schedule.

FOURTH SCHEDULE.

BALANCE SHEETS of the.....on the.....18 .

Liabilities	£ s d	Assets	£ s d
Shareholders' Capital		Mortgages on Property within the United Kingdom ..	
General Reserve Fund (if any)		do. do. out of the United Kingdom ..	
Life Assurance Fund*		Loans on the Company's Policies	
Annuity Fund (if any)*		Investments—	
Fire Fund		In British Government Securities	
Marine Fund		Indian and Colonial	
Profit and Loss (if any)		Foreign	
Other Funds, if any, to be specified		Railway and other Debentures and Debenture Stocks	
Claims under Life Policies admitted but not yet paid*	£	Railway Shares (Preference and Ordinary)	
Outstanding Fire Losses		House Property	
Do. Marine		Other Investments (to be specified)	
Other sums received by the Company (accounts to be specified)		Loans upon Personal Security	
		Bills	
		Outstanding Premiums	
		Do. Interest	
		Cash—	
		On deposit	£
		In hand and on Current Account	
		Other Assets (to be specified)	
			£

* If the Life Assurance Fund is, in accordance with Section 4 of this Act, a separate trust fund for the sole security of the life policy-holders, a separate Balance Sheet for the Life Branch may be given in the form contained in Schedule 2. In other respects the Company is to observe the above form. See also note to Second Schedule.

CHAPTER IX.

THE AUDIT.

To anyone who has not had practical experience of, and training in, insurance business the audit of an insurance company's accounts presents many peculiar features and not a few difficulties. Of these the principal have been touched upon under the heading of "The Reserves," in the previous chapter; a few important points, however, remain to be considered.

VOUCHING AND CHECKING.

The vouching of the payments in respect of general expenses, and items of a similar nature, does not call for special comment; but as regards the technical (or insurance) part of the accounts, a few remarks are necessary, as regards both vouching and checking.

Commission.—

This is a matter to which careful attention should be paid. In a previous chapter it was recommended that no items subject to commission should appear in the Head Office (Direct ^h) Premiums Account. The reason for this precautionary measure

NOTE h.—The word "direct" is used in Fire business to denote premiums coming to an office through its own exertions or those of its agents, as distinct from guarantee premiums, the latter originating with other companies. It is used here (for want of a better term) to signify business resulting without the intervention of an agent—or a company.

is that instances have, unfortunately, arisen in which commission upon cases placed with the Head Office, without the intervention of an agent, has been drawn, and sometimes systematically drawn, by persons not entitled thereto. Such examples are, happily, rare, and these remarks must not be taken as implying any reflection upon the business of insurance as a whole—which is, in the first degree, ably, honestly, and admirably conducted—but an auditor cannot afford to be otherwise than on the alert.

The premiums just referred to may, if the plan suggested be adopted, be left out of the question. There still remains, however, the great bulk of the transactions, which, whether effected through cash agents or ordinary agents, are subject to commission.

For all commission paid to cash agents a receipt must be obtained. Sometimes the agent, or his duly accredited representative, signs or initials a Commission Book—a subsidiary to the Manager's Disbursements Book, or to the Petty Cash Book. Sometimes he gives a receipt upon the office form, which is retained against its counterfoil in a Receipt Book specially printed for this purpose. Sometimes he gives his own receipt. But a receipt of some sort is essential, if a proper check is to be kept upon the accounts.

With regard to ordinary agents, it is usual for them to deduct their commission, when remitting, to show the amount so deducted upon the statement of account, and to sign the account in the space provided at the foot thereof, which is then accepted as a voucher. And the staff should receive particular instructions for the rigorous observing of this rule. Agents do, and will, frequently send up their accounts unsigned, but these should be returned as received for completion, and the agent written to until he properly complies with this regulation. In this way any difficulty as regards vouching will be obviated.

Agents do not often omit to deduct the commission they are entitled to, but occasionally they forget to do so. Occasionally, also, newly appointed agents do not sufficiently study the instructions issued by the office, and expect their commission to be from time to time remitted to them by the company. It is obvious, therefore, that in such cases, given the intent to defraud, commission might, if considerable care is not exercised in the vouching, find its way to an unauthorised person, and the fact remain for a time undetected.

The author remembers hearing of an instance, where the vouching was lax, of a series of frauds being carried out in the following way.

Postal orders, and any other easily negotiable remittances, were converted into cash. A few pence were added to the amount shown as commission when the entry in the Cash Book was made, but which increase was sometimes included under the heading of Postage or Sundries, as appeared most convenient, and the difference thus occasioned found its way into the pockets of a member of the staff. In the body of the agent's receipt the amount remitted was correctly stated, but in the counterfoil the reduced amount agreeing with the Cash Book was entered. Of course, such a proceeding must ultimately be found out, and would in most offices necessitate collusion between two members of the staff; but even collusion is not unknown. The manipulations just indicated involved, it is true, a loss to the company of only a few pence upon each transaction affected; but where the transactions are numerous an aggregate loss so occasioned may be by no means insignificant. Such a practice would, however, be entirely defeated by a proper system of vouching.

With regard to a general check, if the rate of commission were uniform (in the same company) wherever paid, and irrespective of the department, we could, by eliminating the

premiums paid in full to the Head Office (an easy matter, if the accounts are kept as previously described), and adjusting the balances due from agents, prove, nearly enough for all practical purposes, the correctness of the amount of commission disbursed. As a matter of fact, however, it is impossible to reach this desideratum in actual practice, for the following reasons:—

(1) In companies (other than "tariff" fire offices) the rate of commission is rarely, if ever, uniform throughout, so far as the agents are concerned, those transacting a large business frequently receiving an increased rate.

(2) In "tariff" fire insurance offices a variation exists as between ordinary and hazardous business, the latter carrying a lower rate of commission than the former.

(3) In many companies the practice exists of paying Branch managers, district agents, and others a certain fixed salary, and, in consequence, a considerably reduced rate of commission.

Nevertheless, it is not a very difficult matter, with a little careful study of the books (and bearing in mind possible innovations, such as have been previously pointed out), to form a very shrewd estimate of the correctness of the amount charged to commission. It is often advisable, in this connection, to keep the record of the payments made in respect of over-riding commission in a separate account in the General Ledger; and, of course, amounts paid and received for commission in respect of re-insurance and guarantee business must not be lost sight of.

Adverting again to the matter of agents' remittances, a check upon all amounts received through the post is, in many of the smaller offices, obtained in the following way:

All letters received are opened by the manager, and entered in a Letters Received Book by the chief clerk, or other principal officer, as they are opened. The book contains a Cash

column, in which all remittances are recorded, and the entries relating to which are initialled by the cashier when the money is handed over to him. Columns to refer to returned policies and renewal receipts are sometimes added with advantage.

Where a Letters Received Book is kept upon these lines, and from time to time compared with the Premium Cash Books, a very effective check upon the correctness of the latter—so far as relates to amounts received by post—is obtained. And agents' accounts paid in cash over the counter are usually few.

In a large office probably only letters covering remittances would be entered.

Head Office Premiums.—

Not only is the book just referred to beneficial as regards agents' remittances, but it also deals effectively with all Head Office premiums paid by post.

The accuracy of the entries relating to Head Office premiums—whether received through the post or in cash—may, however, be checked by agreeing the (Head Office) Premiums Cash Book with the total of the debit entries in the relative Premium Journals and/or Registers, the record of the cancelments, and the policies and renewal receipts in the hands of the cashier. This proceeding is rendered sometimes advisable by the fact that instances have occurred in which Head Office policies have been marked as renewed in the Renewal Registers without the premiums finding their way into the Cash Book at all.

Cancelled Policies and Receipts.—

Another point to be borne in mind is that all cancelments should be properly authenticated by the production of the duly cancelled policy or renewal receipt; for it is obvious that if a "dummy" be made up to act as a voucher for the purposes of cancellation, a premium might, under certain conditions, be extracted.

This leads to the remark that a few of the entries relating to cancelments, taken here and there, should be checked back on to the Registers, to see that the relative entries are properly cancelled. If an entry is improperly cancelled, and a renewal receipt remains unissued in consequence, the agent (whose commission will be endangered) may be trusted to bring the matter into prominence in due course.

Renewal Receipts.—

The counterfoils of renewal receipts should be watched, and the staff should have instructions to leave any spoilt forms in the books. In this case, also, a few amounts here and there should be compared with the Renewal Registers, and also traced through to the agents' accounts.

The Endorsement Book.—

This book should be carefully examined, to make sure that all items affecting premiums have been properly transferred to the books of record and account; and, *per contra*, it should be seen that all items shown in the accounts as arising from endorsements are properly authenticated.

The Endorsement Book is not infrequently the cause of trouble in the accounts, and it should, therefore, receive its full share of attention.

Claim Receipts.—

All claim receipts, which are usually upon the company's own form, should be carefully examined, and it should be borne in mind that in the event of a "total" claim being paid the policy is, as a rule, given up, with a formal discharge endorsed thereon. In the instance of "partial" and other claims, some of the policy numbers and details might be checked back on to the Registers, with a view to ascertaining that the policies were in force at a given date.

Over-riding Commission Payments.—

These are vouched in the ordinary way.

LATE PREMIUM DEBITS.

In many young companies—struggling to obtain the largest possible premium income in the shortest possible time—it is the practice to encourage agents to make extraordinary efforts to secure new business during the last few months of the year. Occasionally the books are kept open for a short time at the beginning of the new year, in order to include as large a number as possible of the cases outstanding at the balancing period. The policies (and proposals) in respect of these are, it may be supposed, sometimes dated back a few days by arrangement with the insured, where the business has been long promised. Sometimes—the proposals being dated not later than the end of the year—the policies are made to run as from the date of acceptance of the risk, whenever that may be, but are made renewable upon the 31st December following, or, if expiring upon a quarter-day, at the following Christmas. And any serious complications in the Registers, &c., are consequently avoided. But, where a large number of proposals are put through the books at the close of the year, and a considerable amount of money is involved, the auditor should be at pains to satisfy himself, as far as he is able, that these proposals represent *bonâ fide* business, and that there is a reasonable prospect of the premiums thereon being duly paid.

Of course, if the accounts are not audited until a month or two after the close of the year, the matter may often be easily disposed of by reference to the Agents' Ledgers. But the point raised is one which it may sometimes (although, no doubt, rarely) be important not to lose sight of.

Forced business, in any case, results in a higher rate of cancelments (or, more correctly, policies "not taken up") than

business obtained under normal conditions, and the higher the pressure under which it is secured the heavier will be the *pro rata* cancellations.

AGENTS' BALANCES AND OUTSTANDING PREMIUMS.

Usually the agents' balances and outstanding premiums will be mostly liquidated before the final audit is commenced. In any case, however, the Agents' Ledgers should be carefully examined, in order to ascertain that none of the balances are so far overdue as to necessitate their inclusion under the head of Bad or Doubtful Debts.

The balance on the Head Office Account must be verified by requiring the production of the policies and renewal receipts composing the same. And the balances upon Branch Accounts can only be satisfactorily checked in the same way, although frequently the auditor has to be content with a "List of Outstandings," signed by the Branch manager.

Various methods of establishing internal checks—by balancing one set of entries with another, and otherwise—will suggest themselves to the reader, and which, in a work of a general nature, it is impossible to discuss in detail.

With the foregoing remarks, therefore, the author must bring this, the principal, portion of the present volume to a close; the remaining three chapters being devoted to special considerations relating to the three main divisions of the business (in considering which it will be convenient to reverse the order given in the introductory chapter)—viz., Accident, Life, and Fire.

CHAPTER X.

SPECIAL CONSIDERATIONS RELATING TO ACCIDENT INSURANCE, INCLUDING EMPLOYERS' LIABILITY.

THE general system outlined in Chapters I. to IX. will be found particularly adaptable to this division of the business, and a few matters only (which were omitted earlier for the sake of clearness) remain to be dealt with.

Bonuses.—

The first consideration necessitating an extension of the general system arises from the incidence of bonuses. A bonus represents, of course, a concession to the policy-holder, but may assume one of several forms. For instance:—

(1) A reduction, after the policy has been in force a certain number of years, in the amount payable as premium—

(a) If no claim has been made;

(b) Irrespective of whether a claim has been made or not.

(2) An addition to the sum insured in respect of fatal accident or otherwise.

The above are examples of deferred bonuses.

Immediate bonuses are frequently granted in such cases as the following:—

(1) The transference by the insured of an insurance expiring with another company, the policy in respect of which is subject to a bonus.

(2) Where the proposer has been a total abstainer for not less than twelve months immediately preceding the date of his proposal.

The above examples by no means exhaust the variety of bonuses attaching to this branch of the business, but it is unnecessary to enumerate more; and the only description which requires to be dealt with at length is that affecting the premium payable.

A record is usually kept of the gross premiums and of the bonus reductions allowed. In the published accounts the premiums are sometimes shown, less re-insurances *and bonuses*—this fact, of course, being clearly stated; sometimes the bonus figures are given upon the other side of the account, either separately or grouped with claims, &c. But, although it is usual to keep a record of the amount allowed in bonuses, this course is not always followed, the net premiums only, in some cases, being passed through the books of account.

Obviously, however, with a company giving bonuses—and their incidence, although not universal, is extremely frequent—the Policy Register must contain particulars thereof, and of the dates when they mature. These details must also be noted upon the Renewal Registers, for which purpose the "Remarks" column will be found useful. If no record is to be preserved of the total amount allowed, the premium, on the maturity of the bonus, is simply extended in the latter Registers at the reduced rate—a not very satisfactory method of procedure. If an account of the bonus figures is to be kept, an extended

ruling of the Premium columns in the Registers and/or Journals will become necessary.

This extension is, however, a very simple matter, and will usually take the following form:—

Premium			Agents' Ledger Folio
Gross	Bonus Reduction	Net	
£ s d	£ s d	£ s d	

It should be observed that commission (whether ordinary or over-riding) is payable only on the premium after the bonus has been deducted—*i.e.*, it is not payable on the bonus, and consequently the net premium is all that should appear in the Agents' Ledger and Statement of Account.

The renewal receipt, however, will generally show the amount of the bonus upon the top of the form, somewhat as follows:—

Premium (say)	£ 4 0 0
Bonus, 10 %	0 8 0
Amount Payable	<u>£ 3 12 0</u>

It may be pointed out in passing that bonuses by way of reduction of premium, contingent upon no claim having been made, are now much less common than formerly. The chief object with which a bonus is offered is not so much to encourage a diminution in claims as to ensure, as far as possible, the

policy being kept in force. But, with the system which has grown up of accepting without loss of bonus the transfer of insurances with other offices, this object has been to a large extent defeated. Hence it is that the latest development has taken the form of an increase in the policy benefits—a much more difficult matter for a competing office to follow, owing to the divergence between the advantages granted by, and policy forms of, the different companies.

Where bonuses are given by way of increased benefits, a further column may with advantage sometimes be added to the Claim Books, in order to show the amount paid in respect of bonus additions to the policy.

It is probably outside the scope of this work to enquire how far the existence of bonuses affects the reserve necessary in respect of unexpired risks. The matter is a complicated one. The question raised is also very interesting, and should furnish food for reflection.

EMPLOYERS' LIABILITY AND WORKMEN'S COMPENSATION RISKS.

The volume of business annually transacted in this department is being rapidly augmented. Recent legislation has considerably increased the risks to which employers are exposed, and rendered insurance protection more than ever a necessity; and this need has been still further emphasised by the vagaries of the legal decisions in cases which have been brought into Court, and the consequent uncertainty as to the limit of the liability involved.

In one or two respects this branch of the business gives rise to novel points as regards the keeping of the accounts. The premiums payable for insurance in respect of employers' liability

If the policy is renewed the return will, of necessity, be less than the premium stated in the policy, and will simply be deducted when payment is made and the corresponding receipts exchanged. If the policy is not renewed the insured becomes entitled to a payment in cash. This, in Head Office cases, will be made through the Manager's Disbursements Book, and the relative figures will require to be posted to the credit of the Head Office Premiums Account and debited in the General Ledger. In other cases the payment will be made by the agent or Branch, and credit taken therefor in account. In order that the latter may be properly dealt with, a column headed "Rebates paid" will have to be added to the agents' allowances shown in the Cash Book.

It should, perhaps, be pointed out that in this branch of the business "days of grace" are not allowed, and as a consequence adjustments can be dealt with more quickly than would otherwise be possible. Another point to be remembered is that the agent is entitled to commission upon the net, or current, premium only. In cases, however, where the policy has lapsed, it is suggested that, except in unusual circumstances, the matter should not be re-opened.

Reserve for Unexpired Risks.—

Reference was made in an earlier chapter to the subject of Reserves, and to the fact that for the purposes of a general rule it was commonly assumed that the minimum reserve necessary at any period in respect of unexpired risks was $33\frac{1}{3}$ per cent. of the annual premium income. Experience has shown, however, that in employers' liability and workmen's compensation business a larger proportion is necessary. Two causes have contributed to this—(1) the inadequacy of the premium rates previously in force; and (2) the fact that, in the latter branch, claims in respect of disablement may extend over an unascertained period of years.

The amount to be reserved in regard to cases of the class just mentioned becomes more and more a subject for actuarial calculation; and this point having been set out, and the danger of its being overlooked emphasised, the matter must be left at that, for it is beyond the scope of the present work to enter the province of the actuary, and matters will be kept more clear and intelligible by a due recognition of the dividing line between the two professions.

CHAPTER XI.

SPECIAL CONSIDERATIONS RELATING TO LIFE ASSURANCE.

LOOKED at from the point of view of the basis of establishment, life assurance companies are broadly divisible into three classes:—

- (1) Mutual Companies, or Societies—*i.e.*, those in which there are no proprietors or shareholders, and the whole of the profits consequently belong to the policy-holders.
- (2) Proprietary Companies formed under their own special Acts of Parliament.
- (3) Proprietary Companies formed under the Companies Acts, 1862 to 1900.

But inasmuch as the subject of the share and other books and accounts relating to capital are not here discussed, and the technical portion of the accounting relating to each of the above classes shows no inherent difference, these divisions need not be more than mentioned.

A further division is into what are known as—

- (a) Ordinary Life Offices.
- (b) Industrial Life Offices.ⁱ

NOTE *i*.—Industrial life assurance business is that in which the premiums are payable, in small sums, weekly.

The accounts of the latter, which constitute a subject apart, have already been dealt with in Volume XXVIII. of this series, under the heading of "Friendly Societies' Accounts," by E. Furnival Jones, and it is, therefore, not proposed to treat of them in this volume.

ORDINARY LIFE OFFICES.

Interim Receipts.—

The first point to be borne in mind in dealing with Life Assurance Accounts is that, in many offices, it is not customary to write the policy, or, at all events, to issue it to the agent until the first premium has been paid. In place, however, of the immediate issue of the policy an interim receipt for the premium is made out and forwarded to the agent, and handed by him to the assured, on collection of the premium and pending the preparation of the policy. Interim receipts are issued with a counterfoil attached, and this counterfoil, bearing the date of payment and initialled by the agent, is returned to the office, and upon its arrival the policy is made out and despatched.

These receipts, therefore—which are issued in respect of all cases, whether originating with Agents, Branches, or the Head Office—become the basis of the accounting entries.

Interim receipts are numbered consecutively and entered in the Premium Journal, or its equivalent, as and when they are sent off to the agent. A column is ruled in the Journal to contain the policy number, and this is filled in on the policy being issued. The New Business Cancellation Journal will also require to be similarly ruled, for it is obvious that in practice instances must arise in which it will become necessary for an agent to return an interim receipt for cancellation.

Renewal Dates.—

Another matter to be borne in mind is that it is customary for policies to fall due for renewal upon the anniversary of the

date of commencement of risk, and not from the anniversary of the quarter-day next following.

Sums Assured.—

The total sum assured by new policies issued during the financial year is invariably given in the Report of the Directors accompanying the accounts. The information needed for this purpose is easily provided by including in the New Business Journal a column headed "Sum Assured."

Loans on Policies and Interest thereon.—

Loans on policies, within their surrender value, are common in this branch of the business, and a column to contain entries of the amounts to be collected by way of interest will become necessary in the Premium Journals. Another column, headed "Miscellaneous Items," may also with advantage be added, to contain details of such items as Fines charged on Overdue Premiums, &c.

Medical Fees.—

Fees in respect of medical examinations will be a constantly recurring charge, and due provision must be made therefor, upon the basis already discussed. Payment will, usually, be made either by the agent, and the amount thereof deducted from his account when remitting, or by the Head Office through the Manager's Disbursements Book.

Claims.—

It should be borne in mind that in "life" business every claim is, of necessity, for the total amount of the policy, which is thereby cancelled.

Policies are of many kinds, but the principal divisions are—

- (1) Whole Life;

- (2) Endowment, *i.e.*, payable in the lifetime of the assured upon an agreed age being attained, or at death, if it takes place in the meantime;

and—

- (a) With profits.
- (b) Without profits.

Both "whole life" and "endowment" assurances may be effected either with or without profits at the option of the proposer.

Surrender Values.—

Life assurance policies, being permanent contracts, a surrender value accrues, as a rule, after the first three annual premiums have been paid, and increases in amount year by year. Surrender values, when applied for, are usually dealt with through the Claims Account, the details being kept separate. The actuary, of course, decides upon the sum to be returned.

Some offices voluntarily apply unclaimed surrender values to keep in force policies which would otherwise lapse by reason of non-payment of premiums.

Bonuses.—

Bonuses in "life" business take many forms. For instance—

- (1) Reversionary Bonuses—*i.e.*, where an addition is made to the sum assured, and which is payable on the maturity of the policy, together with the capital sum.
- (2) Cash Bonuses—*i.e.*, where a return on account of premiums paid is made to the assured in cash.
- (3) Bonuses by way of reduction in the rate of premium payable for the future.

The rate of bonus is calculated by the actuary at the periodical valuation. Generally the valuation takes place at

an interval of five years, but sometimes it is made each year, and sometimes, again, once in every seven years.

The only description of bonus which is likely to lead to a complication in the accounts is that by which the amount of premium payable is reduced; and this may be dealt with in the same way as that referred to in the chapter upon Accident Insurance.

Bonuses, of course, can only relate to "with profit" policies.

Reserves.—

The question of the premium reserves necessary is dealt with solely by the actuary, and is outside the scope of the accountant's duties.

The subject of Life Assurance Accounts is of very considerable technical importance, and of very wide scope; but (contrary to what is the case with the other divisions of the business) it has received very full treatment at the hands of eminent insurance officials—many of them fully qualified actuaries—and others.

Numerous lectures thereon will be found in the transactions of the various Accountants Students' Societies, of the Institute of Actuaries in London, of the Faculty of Actuaries in Scotland, and elsewhere.

To readers who are desirous of following the matter further, and of obtaining a fuller knowledge of this division of the subject, and its many technicalities, the author would particularly recommend—

- (1) The excellent lecture by Mr. John Gane, F.C.A., in the "Transactions" of the Chartered Accountants Students' Society of London, for the year 1892.

- (2) A lecture entitled "Forms of Life Office Books," by Mr. William Smith Nicol, F.F.A., in the "Transactions" of the Actuarial Society of Edinburgh for 1897.

- (3) A lecture "On the Bookkeeping of a Life Office," by Mr. James John McLauchlan, F.F.A., in the "Transactions" of the Faculty of Actuaries for 1903.

- (4) A most interesting lecture on "Life Premium Bookkeeping," by Mr. James Chatham, F.I.A., F.F.A., read before the Institute of Actuaries in April 1904, and published in the Institute's journal for October of that year.

There is also a lecture dealing with the Card System as applied to life office accounting, by Mr. A. D. Turnbull, A.I.A., F.F.A., in Vol. IV. (No. 7) of the "Transactions" of the Actuarial Society of Edinburgh, which will be of use where this system is in force, or contemplated.

A number of other papers exist, but the above will be found thoroughly representative, and will, together, supply the fullest information.

The provisions of the Life Assurance Companies Acts will also well repay careful study.

CHAPTER XII.

SPECIAL CONSIDERATIONS RELATING TO FIRE INSURANCE.

THIS division of the subject forms, to a large extent, a section by itself. The business of fire insurance has become a highly specialised one, and customs have grown up in relation to it, and to accounting in respect thereof, which have the force of the "law merchant."

At the same time, it is worthy of note that while a large amount of literature exists upon the subject of life assurance, both in respect of procedure and accounts, extremely little has been written upon fire insurance *generally*, and with regard to the accounts even less. This is the more remarkable, because fire insurance was an established business in this country long before the scheme of life assurance, as we know it, was reduced to practical proportions.

Speaking in general terms, fire insurance as a business may be said to date from the formation in 1696 (under the title of "The Amicable Contributionship for the Insurance of Houses") of the Hand-in-Hand Insurance Society; and life assurance in its present form from the establishment in 1762 of the Equitable Life Assurance Society, both of which offices, it is satisfactory to remember, are in vigorous existence, and are to be reckoned among the foremost exponents of the business to-day. And, it might be added, for all-round excellence British fire and life offices are still unsurpassed the world over.

Principal Divisions.—

Fire insurance offices are divisible into two classes—

- (1) "Tariff" Companies;
- (2) "Non-tariff" Companies;

and a few words in explanation of these terms, which are constantly recurring, must be given.

Tariff Offices.—

Fire insurance is a business of peculiar hazard, and is subject, even in the largest and best-regulated offices, to considerable fluctuations, from year to year, in the ratio of claims to premiums. It is also subject to cycles of good and bad fortune—a few years of prosperity being usually followed by a period of unprofitable, and sometimes disastrous, results, and *vice versa*. Moreover, as is common in all branches of insurance, the premiums are paid to the office in advance, consequently financial stability, or, in other words, the ability to pay claims as and when they arise becomes of the utmost importance. Now financial stability, given sufficient initial capital, depends for continuance upon two things—first, the charging of a rate of premium commensurate with the risk undertaken; and, secondly, the skill with which the undertaking is conducted. The latter consideration may be passed over here.

With regard to the former, it is clear that the fact of the money being receivable in advance might, in certain circumstances, of itself furnish a temptation to lower the rates beyond the point at which the margin of safety vanishes; and this has sometimes proved to be the case with newly-established companies over-anxious to secure a premium income of large dimensions. But, further, competition in this business is, and has been for a very long time, exceedingly keen, and the effect of extreme competition can only have one result—rate-cutting—

which, if unchecked in such a business, must end in disaster to the office and loss to the insured.

Recognising this fact, several years ago a number of the leading companies agreed by their representatives to meet, discuss, and fix the minimum rates for all recognised classes of risk; and the ruling of the Fire Offices Committee thus brought into existence is now loyally followed by most of our fire insurance offices. The companies which have by this means become associated are known technically as "Tariff Offices."

Many matters of general procedure are specifically regulated under the "tariff," but the only one which need be referred to here is that of commission, the rates payable being fixed at

15 per cent. for ordinary business, and

10 per cent. for hazardous business,

and showing thus a variation.

Non-Tariff Offices.—

As the name implies, "non-tariff offices" are those companies which are not members of the Fire Offices Committee, and do not subscribe to its rules. It is, however, significant that the tariff rates frequently form the basis upon which the rates of outside offices are arrived at, and it appears to be often only in exceptional cases that a lower premium than that fixed by "the tariff" is charged. Nevertheless, such offices can, of course, accept any rate they elect, and can allow whatever rate or rates of commission they please.

Proposal Form.—

In passing it should, perhaps, be mentioned that in this department of the business—particularly with regard to small cases—the proposal form is frequently signed by the agent "for the proposer."

Risk Indexes.—

In many branches of insurance business—such, for instance, as Life, Accident, Sickness, Fidelity Guarantee, &c.—the name of the policy-holder, or of the person indemnified, is significant of the risk; in fire business and business dealing with the insurance of property, an index to the situation, &c., of the property must be kept—in addition to the usual Name Index—in order that an office may be able to ascertain at once whether it is committed, and to what extent, upon any risk that may be offered. Books of this nature are the Place Index, Street Index, &c.

A Risk Register is also employed, in which the policies are grouped according to the nature of the trade carried on upon the premises. There will be headings, for instance, for such risks as Distilleries, Furniture Depositories, Tanneries, &c., &c., and this provision is of great use in the event of it being found necessary to alter the rate of premium in respect of certain businesses, and for statistical purposes.

Deposits.—

In fire business protection is often more eagerly sought than in other branches of insurance. The seriousness of the Fire hazard is universally recognised. And cover is usually desired immediately. But the business offered—except in the case of that relating to private dwelling-houses—is, as a rule, subject to survey.

A provisional cover-note is, however, frequently issued, pending survey, accepting the risk, subject to the approval of the directors, and otherwise, and in return for a payment by way of deposit.

Now, if the case be not finally accepted, the office is entitled to deduct, and does deduct, from this deposit a sum proportionate to the length of time the risk has been held covered, the balance being returned to the proposer.

The amount deducted is known as a payment in respect of "time on risk." A "Returns" column is added to the Cash Books, and the amount of the return appears therein in due course; and the debit necessary to complete the transaction is carried to account either through the Premium Journals or Endorsement Books, being entered under the serial number of the order or proposal. In these cases no policy is issued.

Proportionate Returns of Premiums.—

Another point of a somewhat similar nature arises as follows. Frequently alterations in the amount of the sum insured are required, and these necessitate the replacing of the existing policy by a new one, and often before the policy year as regards the former has expired. In such cases a return of premium in respect of the first policy is made by way of allowance from the first premium payable upon the replacing policy, the original policy being cancelled. An entry is made in the Cancellation Journal for the amount returnable. The amount of this return is separately shown at the head of the new policy as a deduction, the full premium being entered in the debiting Journal.

Cancellation Journals.—

These should contain separate columns to hold the entries relating to the returns above mentioned. Another matter which must not be overlooked is that cancellations have a bearing upon the Street Index, Risk Register, and other similar books, and a system of cross-folioing is, therefore, often advisable.

New Premium Debits.—

The division of the premiums between "odd time to next quarter-day" and "annual premium," referred to earlier in this work, is not usually adopted by fire offices; nor, and perhaps

with more reason, is such a course usual as regards re-insurances and guarantees, no doubt partly on account of the greatly increased work which would be necessitated thereby.

County Council Returns.—

Under the regulations of the London County Council, offices operating in the metropolitan area have to contribute to the expenses of the fire brigades in proportion to the sums insured within such area. A separate book to contain the necessary record is kept, and ruled in somewhat similar form to the Renewal Registers. (See Form No. 31.)

Salvage.—

Questions are sometimes asked as to how "salvage" is dealt with in the books of a fire insurance office. As a matter of fact, entries therefor are seldom required. The company undertakes to make good the amount of the actual loss occasioned, and reserves to itself the right to reinstate.

In the event of a total loss, the question of salvage does not arise. In the event of a partial loss, if stock, &c., is damaged, its reduced value is assessed at the time the claim is settled, the difference between the reduced value and the value immediately anterior to the fire only being paid for; if the building is damaged, the value of the salvage is allowed for, by the contractor for reinstatement, in his estimate, and the claim reduced accordingly.

Occasionally—in the instance, for example, of damaged stock—the insured and the company's assessor are unable to come to an arrangement as to the value of the salvage, and in such a case the assessor will usually effect a sale on behalf of the company. Any amounts so recovered would be shown in a column headed "Salvage Recoveries," in the Loss (or Claims) Book, and would be written off the amount of losses paid.

Form 32.—
RE-INSURANCE AND GUARANTEE JOURNALS.

Date	Particulars	Sum Insured New Policies	Ledger Folio		Premium		Returns		Com- mission	Remarks
					New	Renewals	New	Renewals		
					£ s d	£ s d	£ s d	£ s d	£ s d	

In this Journal new premiums are entered separately, but renewals in bulk; and the same form is applicable to both the Re-insurance and Guarantee Departments, but separate books are advisable.

Cash columns are occasionally added, and the books thus made to contain a full record of all the relative transactions.

In conclusion, the writer is fully aware that many points arising in connection with special features of the business have not been referred to, and that others have been dealt with only too superficially. But in this, the first edition of the first book dealing exclusively with the subject of Insurance Companies' Accounts, it has been impossible to give more than a general outline, based, it is hoped, upon what will prove a permanent foundation. And if, at some future date, it should become necessary to revise the present volume, it will, no doubt, be found possible to extend the consideration given to some of the matters touched upon, and to make such alterations and additions as time may show to be necessary or expedient.

With these few closing remarks the author submits his work to the generous consideration of his readers.

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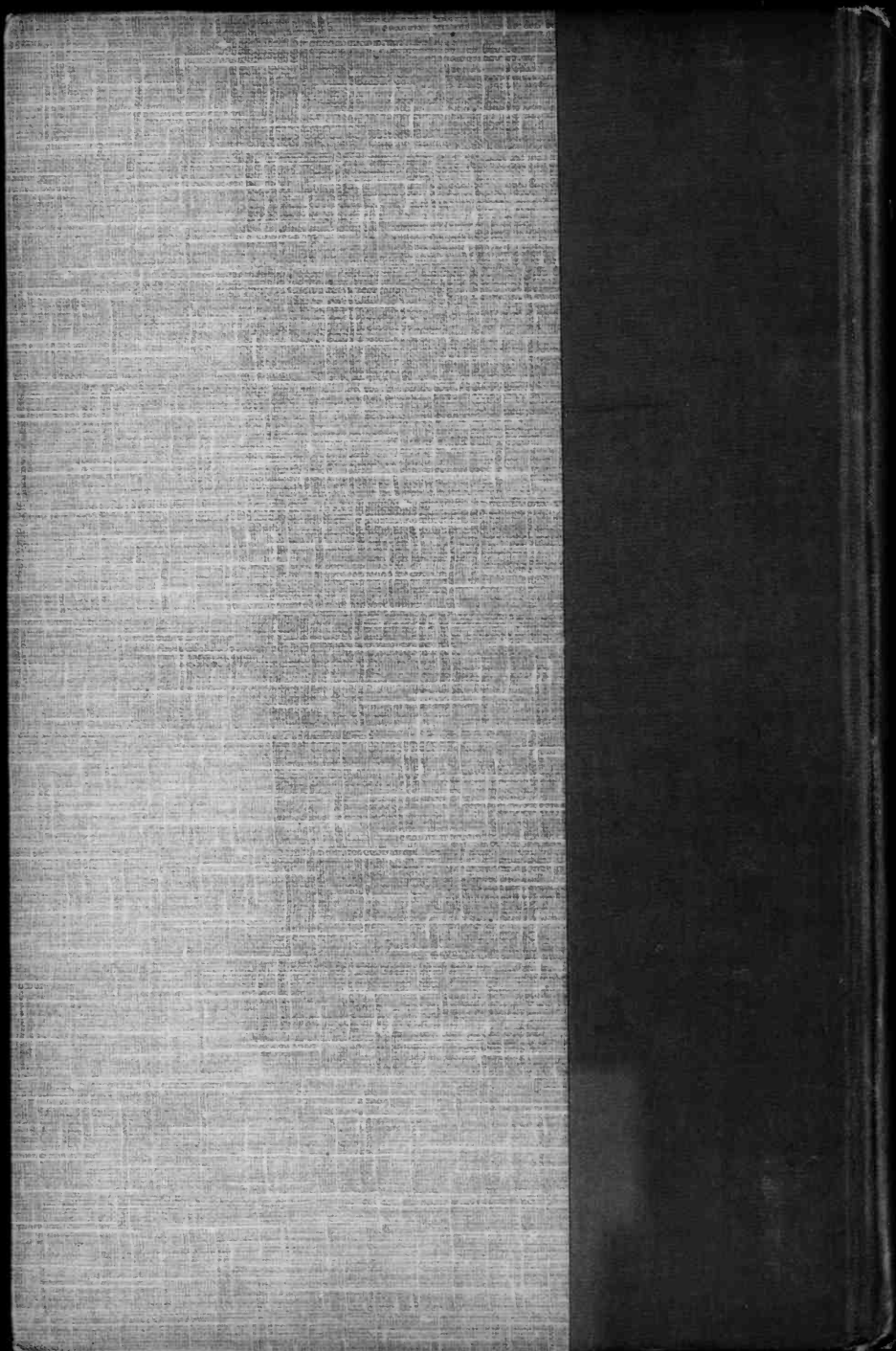
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